30 Cannon Street, London EC4M 6XH, United Kingdom
Phone: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: http://www.iasb.org

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:	**13 December 2007, London (Agenda Paper 14A)**
Project:	**Conceptual Framework**
	Phase B: Elements and Recognition – Liability Definition – Converging and Improving the Definitions

Introduction

1. The objective of the IASB/FASB Conceptual Framework project is to develop a single common conceptual framework by *converging* and *improving* upon the existing frameworks. In October 2007, in regards to the working definition of an asset, the Boards decided to:

   a. Converge by focusing the definition of an asset on a present economic resource, rather than on future economic benefits.

   b. Improve the definition of an asset by removing the assessment of likelihood.

   c. Improve the definition of an asset by focusing on the present, rather than on past transactions or other events.

   d. Improve the definition of an asset by focusing on access, rather than control.

2. As a result, the following working definition of an asset was approved by the Boards.

> An *asset* of an entity is a present economic resource to which the entity, through an enforceable right or other means, has access or can limit the access of others.[1]

3. This paper considers a proposed working definition of a liability. Based on the Boards' decisions to converge and improve the definition of an asset, this paper proposes first what is necessary to *converge* the existing IASB and FASB definitions of a liability. The paper then considers the extent to which we might seek to *improve* the definitions—considering the role of likelihood, the need for a past transaction or other event, and the merits of developing a mirror image definition of a liability to that of an asset. Finally, the paper requests Board members' decisions on a tentative working definition of a liability for use as we proceed with other aspects of Phase B of the conceptual framework project and requests views on the amplification that we should provide as to what constitutes *enforceability*. IASB Agenda Paper 14B / FASB Memorandum 70B illustrates application of the proposed working definition, and the existing IASB and FASB definitions of a liability, to a number of examples.

4. This paper considers the *definition* of a liability only—that is, it considers whether a liability exists and whether it is the entity's liability. It does not consider whether a liability should be *recognised*. The purpose of recognition is to decide which things should be included on an entity's statement of financial position. These might exclude things that meet the definition of a liability, but for which there are other reasons for not recognising them. We plan to commence consideration of recognition in the first half of 2008.

5. In some cases, there might be uncertainty as to whether the definition of a liability is met. That is, there might be uncertainty about whether a liability exists, or whether it is the entity's liability. In these cases, a decision as to how to deal with such uncertainty for accounting purposes will be necessary, which may, or may not, be a recognition issue. We plan to consider situations involving uncertainty in February 2008.

[1] Supported by explanation of the key terms—*economic resource*, *enforceable right,* and *other means of access*.

6. To complete the work on the definition of a liability we must deal also with the boundary between liabilities and equity. This will be addressed later in Phase B. However, the proposals in this paper do rule out things that would be neither liabilities nor equity. Our objective is to be in a position to confirm a working definition of a liability at the April 2008 joint IASB-FASB meeting, subject to anything else that might be learned as a result of the Boards' consultations on the standards-level project on Liabilities and Equity (together with considering any consequential effects that deliberations of the working definition of a liability might have on the working definition of an asset agreed to in October 2007).

Converging the Definitions

7. The existing IASB and FASB definitions of a liability are as follows:

> A **liability** is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. [IASB *Framework*, paragraph 49(b)]
>
> **Liabilities** are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. [FASB, CON 6, paragraph 35; footnote references omitted]

8. The existing definitions differ from one another. Therefore, at a minimum, some change is necessary to achieve convergence. There are several wording differences between the definitions, but the key difference is that the IASB definition focuses on a liability as being a *present obligation,* whereas the FASB definition focuses on a liability as being *probable future sacrifices of economic benefits.*

9. We think that focusing on *future sacrifices of economic benefits* is the wrong focus. Financial statements can be viewed as reporting on things that exist (sometimes referred to as *stocks*) and changes in those things (sometimes referred to as *flows*). Like the definition of an asset, we think that the definition of a liability should focus on stocks—the things that exist. A liability is not itself an outflow (or sacrifice) of economic benefits, but rather it is something that is capable of resulting in an outflow (or of reducing an inflow). The problem with the

existing FASB definition is that it defines a 'stock' by reference to a 'flow.' That is, it states that, "Liabilities are probable future sacrifices … arising from present obligations". It focuses on the things that have arisen from the present obligation, rather than on the present obligation itself.

10. Additionally, a liability is something that exists in the present rather than in the future. However, the wording in the existing FASB definition suggests otherwise by equating the liability with *future* sacrifice of economic benefits. This is sometimes misinterpreted as meaning that the liability is the ultimate future outflow. [Sentences omitted from Observer Notes.]

11. The IASB qualifies the word *obligation* with the phrase …*to result in an outflow from the entity of resources embodying economic benefits*, so that it is an *economic* obligation. The FASB definition refers to *future sacrifices of economic benefits*, again indicating that the focus is on *economic* things. Accordingly, in converging the definitions, we refer to an *economic* obligation.

12. The key convergence change proposed is the use of *economic obligation* rather than *sacrifices of economic benefits* to indicate that the focus is on a stock, rather than on a flow, and the use of *present* rather than *future* to indicate that the resource must presently exist.

13. There was support for this change in emphasis from participants at the American Accounting Association/FASB financial reporting issues conference (AAA/FASB conference), who discussed a draft definition of a liability and an extensive list of examples in December 2006. This change is also consistent with the changes made in developing the working definition of an asset.

14. By making this change we could converge the definitions of a liability by defining a liability as follows:

> "A *liability* is a present economic obligation of the entity as a result of past [transactions or other] events from which future economic benefits are expected to flow from the entity."

15. This places the emphasis on a liability being a *present economic obligation*, while minimising other wording changes from the existing definitions.

Further Improving the Definition

Likelihood

16. Both of the existing IASB and FASB definitions of a liability make reference to likelihood, but using different words ("expected" in the case of the IASB and "probable" in the case of the FASB). Likelihood was included in the existing FASB definition in response to constituents' concerns on earlier proposals that the definition would require that an item be certain in order to qualify as a liability. Since few things in life are certain, the FASB observed that few items that are commonly thought to be liabilities would qualify in accordance with the definition. Accordingly, the FASB included likelihood with the intent of indicating that the item in question need not be certain (that is, it could be less than certain) to meet the definition. We think that similar reasons resulted in the inclusion of *expected* in the IASB definition.

17. Both the IASB and FASB definitions have been misinterpreted as implying that there must be a high likelihood of future outflow of economic benefits for the definition to be met. Thus, some think that unless there is a high likelihood of future outflow of economic benefits, the liability definition is not met. That is not the intent. (A footnote to the FASB definition in CON 6, paragraph 35, footnote 21, attempts to explain that, but seemingly has not been effective.)

18. If there is any question of likelihood to be considered, that might be a factor in assessing whether a particular liability (or liability class) qualifies for recognition, or in determining its measurement, not in the definition of a liability.

19. This was the most favoured improvement in the draft definition by participants at the AAA/FASB conference in December 2006. This improvement is also consistent with the changes made in developing the working definition of an asset.

20. This suggests that we should further amend the converged definition of a liability, in paragraph 14 above, as follows:

> "A *liability* is a present economic obligation of the entity as a result of past [transactions or other] events from which future economic benefits are capable of flowing ~~expected to flow~~ from the entity."

21. Neither the existing IASB nor FASB frameworks explicitly tie the liability definitions to the objective of financial reporting—to provide information useful to users in making resource allocation decisions, such as information to assess the timing and uncertainty of future cash flows. The IASB Framework does include the payment of cash as one of the number of ways a present obligation may be settled. While FASB Concepts Statement 6 describes assets as having the capability to contribute to producing positive cash flows, it does not explicitly describe liabilities as having the capability of resulting in negative cash flows, although that notion is present in the discussion of liabilities.

22. The proposed improved objective of financial reporting is *to provide financial information… that is useful to* capital providers… *in making decisions in their capacity as capital providers.* Decision usefulness then explains that *when making resource allocation decisions, users are primarily interested in the entity's ability to generate net cash flows*. Thus, to better tie the liability definition to the objective of financial reporting, we think that it is preferable to focus directly on the capability of *requiring cash outflows or reducing cash inflows*. This would also make it more parallel to the definition of an economic resource supporting the working definition of an asset.

23. Also, we note that, in assessing whether something is capable of resulting in cash outflows, it is necessary to take into account cash inflows that occur simultaneously with the cash outflows. Thus, if something is capable of resulting in cash outflows only while simultaneously producing equal or greater cash inflows, it cannot be a liability. [Sentence omitted from Observer Notes.] (How to present this is, at least in part, a unit of account issue.)

24. This suggests that we should further amend the converged definition of a liability, in paragraph 20 above, as follows:

> "A *liability* is a present economic obligation of the entity as a result of past [transactions or other] events that is capable of resulting in cash outflows or reduced cash inflows ~~from which future economic benefits are capable of flowing from the entity~~."

25. As we noted in developing the working definition of an asset, this formulation of the definition is not clear as to whether the phrase *that is capable of resulting in cash outflows or reduced cash inflows* constitutes further explanation of what is an economic obligation, or is a narrowing of that term to a particular type of economic obligation. We think that the intent of the phrase is to further explain what an economic obligation is and, therefore, that it is clearer not to include the phrase in the definition. Rather, as with the definition of an asset, we think that we should accompany the definition of a liability with separate definitions of key terms. In that way, we can more readily provide a complete description, without overburdening the wording of the definition of a *liability*. Thus, the definition of a liability, in paragraph 24 above, becomes:

> "A *liability* is a present economic obligation of the entity as a result of past [transactions or other] events ~~that is capable of resulting in cash outflows or reducing cash inflows~~."

The explanation that an economic obligation is capable of resulting in cash outflows or reducing cash inflows will be reintroduced later in the paper (see paragraph 33-42, below).

Past Transaction or Other Event

26. Both the existing IASB and FASB definitions refer to the need for an asset and a liability to have arisen as a result of something having happened in the past. To avoid the undue emphasis some people place on identifying the past transaction or other event that gave rise to an asset, the Boards decided to improve the definition of an *asset* by focusing on the present, rather than on past transactions or other events.

27. In a parallel manner, by focusing on a *present* economic obligation in the proposed definition of a liability, it becomes redundant to refer to the need for a past event. This also has the advantage that the economic obligation must exist today—so it cannot be an economic obligation that will not arise until the future or that existed in the past, but no longer exists at the financial statement date.

28. To the extent that a past transaction or event might help to identify the existence of a liability, the amplifying text to the definition of a liability can explain that being aware of the event or transaction is a sufficient but not a necessary condition.

29. There was support for this improvement in the draft definition by participants at the AAA/FASB conference in December 2006.

30. This suggests that we should further amend the definition of a liability, in paragraph 25 above, as follows:

> "A *liability* is a present economic obligation of the entity~~ as a result of past [transactions or other] events~~."

31. *Parallel with the changes made to the working definition of an asset, do you agree that the existing IASB and FASB liability definitions should be:*

    a. *Converged to focus on defining a liability as an economic obligation rather than as probable future sacrifices (see paragraphs 7-15).*

    b. *Improved by removing the assessment of likelihood (see paragraphs 16-25).*

    c. *Improved by replacing references to past transactions or other events, with a focus on the present (see paragraphs 26-30).*

32. *Do you think that any further improvements should be considered (see below), or do you think that we should stop here?*

Mirror Image of Asset Definition

33. The working definition of an asset is structured to first focus on the "good thing" that exists—an economic resource, and then on how the entity is linked to that good thing.

34. In the same manner, the liability definition could be structured to first focus on a "bad thing" and then on how the entity is linked to that bad thing. Compared to the proposed definition in paragraph 30 that "a liability is a present economic obligation of the entity," this proposed structure would more explicitly and clearly describe the two essential components of a liability.

35. The next steps are to decide how to describe the "bad thing" and the "linkage" using opposite terms to those used in the asset definition.

Opposite Term of *Economic Resource*

36. Previously, we had proposed the term "economic burden" as the opposite of "economic resource." However, some Board members have expressed concern with the use of the word *burden*. The term *burden* does have several meanings. The *Oxford English Dictionary Online*[2] describes burden as: "a heavy load, cause of hardship or worry, and the main responsibility for a task." To put the term in its intended financial context, it would be described as an *economic* burden. Though not defined in dictionaries, *economic burden* is used in economic studies to refer to costs that society bears, such as national debt.

37. In light of the concerns about the word *burden*, we have sought out alternative words, such as "encumbrance," "onus," "duty," "responsibility," or "requirement." We think some of these alternatives do not capture all the things we think of as liabilities or may have different meanings depending on the facts and circumstances. For example, *encumbrance* is often interpreted from a legal perspective which is defined in the *Oxford English Dictionary Online* as "a mortgage or other charge on property or assets." Some of the terms are synonyms of *burden* or *obligation*, such as *onus* or *duty*, respectively.

[2] Accessed *Oxford English Dictionary Online* in November 2007.

38. *Responsibility* and *requirement* are possible candidates to replace burden. They are defined in the *Oxford English Dictionary Online* as:

    a. *Responsibility* is “the opportunity or ability to act independently and take decisions without authorisation, and a thing which one is required to do as part of a job, role, or legal obligation.”

    b. *Requirement* is “something required, a need, and something specified as compulsory.”

39. We do note that responsibility can be viewed as a positive ability, which is opposite of the notion intended in the liability definition. A responsibility also implies that a person who is “responsible” for something has the ability or power to decide what to do and when to act. For these reasons, we think the term “requirement” more clearly implies that there is something one must do or cannot avoid, than “responsibility.” However, describing the thing to which the entity is obligated as a “requirement” does introduce some ambiguity, as this might be read by some to imply that others can require the entity to do something, which is the role of the “*link*.”

40. On balance, we think that *economic burden* and *economic requirement* most clearly capture the opposite of “economic resource.”

41. To follow a parallel approach used in the working definition of an asset and to describe the first essential component of a liability, this suggests that we should further amend the definition of a liability in paragraph 30 above, as follows:

> “A *liability* <u>of an entity</u> is a present economic <u>burden or requirement</u>[3] ~~obligation~~ of the entity.”

42. To communicate the meaning of *economic burden or requirement*, the definition of a liability should be accompanied by the following definition:

[3] We have suggested using both *burden* and *requirement* in the working definition. However, if the Boards agree that one or the other tem is clearly preferable, then that term might be used alone.

> "An *economic burden or requirement* is something that is scarce and capable of resulting in cash outflows or reduced cash inflows, directly or indirectly, alone or together with other economic burdens or requirements."

This parallels the equivalent definition of an economic resource, supporting the working definition of an asset, as follows:

> "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."

43. *Do you agree that the definition of a liability should describe the "bad thing" as an economic burden or requirement, as in paragraph 41, and that the definition of economic burden or requirement in paragraph 42 should be provided?*

Describing How the Entity is "Linked" to the Economic Burden or Requirement

44. In the definition of an asset, the economic resource is "linked" to the entity *through an enforceable right or other means*. The difficulty with the term *obligation* is that accountants use the term with three different meanings. That is, *obligation* is commonly used to mean:

(a) a "bad thing;"

(b) the linkage between an entity and the "bad thing"— The natural counterpart of *right* is *obligation,* especially in the context of contracts, as in "contractual rights and obligations"; and

(c) a combination of (a) and (b)—that is, as a synonym for *liability*.

In the working definition of an asset, the term *right* is used to describe the linkage between the entity and the economic resource—that is, it is used in the manner described in (b).

45. Given the multiple meanings of *obligation,* we have considered various other terms and phrases[4] to describe how the entity is linked to the economic burden or requirement. None of

[4] Synonyms for *obligation* include accountability, accountableness, agreement, burden, commitment, committal, compulsion, contract, debit, debt, duty, liability, must, necessity, need, onus, ought, promise, requirement, right, and understanding.

the other possibilities considered match the meaning of *obligation* as defined in the Oxford English Dictionary Online—"the condition of being morally or legally bound to do something." The use of *obligation* as the linkage would emphasise how the entity is bound to the *economic burden or requirement*. Even though *obligation* is still subject to misinterpretations as previously described, many of the synonyms for *obligation* are also subject to the same misinterpretations.

46. When other similar misinterpretations have arisen in the Conceptual Framework project, the Boards have decided to replace the misunderstood term, such as replacing *reliability* with *faithful representation*. However, in this circumstance, the number of improvements or changes proposed to the existing definitions of a liability need to be weighed. We think that it will be more worthwhile to focus the improvements on identifying and explaining the two essential components of a liability, then replacing an entrenched term like obligation.

47. As with *rights* in the definition of an asset, to focus the meaning of obligation on binding the "bad thing" to the entity, the obligation should be *enforceable*. The only obligations that financial reporting should reflect are those that another party could force an entity to fulfil, otherwise satisfy, or settle by legal or other equivalent means. This will exclude "moral obligations" that are not enforceable by another party.

48. Enforceable obligations include those that are established by contract or imposed by government, as they can be enforced by a court of law. In some cases, constructive obligations—those that are created, inferred, or construed from the facts in a particular situation—may also be enforceable by the operation of legal doctrines, such as promissory estoppel. Such doctrines can be considered part of law and thus, are also legally enforceable. In some cases, equitable obligations—those that stem from a duty to another entity to do that which an ordinary conscience and sense of justice would deem fair, just, and right—might also be enforceable when they are supported by courts of equity. However, obligations that arise merely from ethical, moral or economic compulsion do not qualify because management of an entity could decide not to honour these kinds of obligations and another party could not enforce them against the entity. Only obligations that are enforceable by legal or other equivalent means should qualify for financial reporting purposes. [Consideration of

what *enforceable by equivalent means* is considered later in the paper (see paragraphs 59-63).]

49. Consistent with the approach in the asset definition to restrict rights to those that are enforceable, we propose that the definition of a liability should also limit obligations to those that are enforceable by legal or other equivalent means. Therefore, to clarify the use of *obligation* in the liability definition, we propose to describe the obligation as being *enforceable* and to define this key term.

50. To follow a parallel approach used in the working asset definition and to describe the second essential component of a liability, this suggests that we should further amend the definition of a liability, in paragraph 41 above, as follows:

> "A *liability* of an entity is a present economic burden or requirement to which ~~of~~ the entity has an enforceable obligation."

51. To communicate the intended meaning of *enforceable obligation*, the definition of a liability should be accompanied by the following definition:

> "An *enforceable obligation* establishes the link between the entity and the present economic burden or requirement. Obligations are legally enforceable or enforceable by equivalent means."

52. *Do you agree that we should use the definition of a liability in paragraph 50 and the definition of enforceable obligation in paragraph 51?*

Equivalent to *other means* of access in Definition of an Asset?

53. The working definition of an *asset* establishes the link between the entity and a present economic resource by describing the link as being established *through an enforceable right or other means*. If an *enforceable obligation* in the proposed working definition of a liability is viewed as the liability equivalent of *enforceable rights* in the working definition of an asset, then some people might question what might be the liability equivalent of *other means*.

54. *Other means* in the working definition of an asset is intended to capture situations when an entity's link to a present economic resource is established by other than legally or equivalently enforceable means—i.e., there is no other party that can enforce the entity's link, but the entity can protect its link by means of barriers to access, such as secrecy. Effectively, in these situations, the entity protects its ownership of the economic resource. Therefore, this type of asset is more akin to those assets for which the entity has ownership, or property rights, for which there are no corresponding liabilities. Therefore, we think that there is no need for an equivalent to *other means* in the working definition of a liability.

55. *Do you agree that there is no need for an equivalent to "other means" in the proposed definition of a liability? If not, why not?*

Enforceability

How *enforceable* must an obligation be?

56. Some have asked how enforceable must an obligation be for the entity to be linked to the economic burden or requirement. They question whether it is sufficient for another party to have any ability to take actions to link the economic burden or requirement to the entity or whether some degree of certainty is necessary? We think that existence of an obligation to an economic burden or requirement should not involve assessing to what degree the item is enforceable by others upon an entity, (for example, it should not involve an assessment as to whether it is *more likely than not* that it is the entity that has an obligation for the economic burden or requirement). Including such an assessment would result in similar interpretation issues to those that arise with *likelihood* today.

57. We think that we should consider whether the obligation for the economic burden or requirement is *capable* of being enforced upon the entity through legal or other equivalent means. This is consistent with what an entity commonly considers when making business decisions—a greater than zero ability of another entity to enforce an economic burden or requirement upon the entity. In contentious situations, such ability can influence a decision as to whether to settle a contract dispute or to honour a liability. The other entity need not have demonstrated its intent or taken actions to begin the enforcement. A contract might appear

[5]

58. *Do you agree that enforceable obligations are those that are capable of being enforced and should not involve assessing to what degree the item may be enforceable by others upon an entity? If not, why not?*

What constitutes *enforceable by equivalent means*

59. The definition of an *enforceable obligation* includes obligations that are enforceable by means that are equivalent to legal enforceability. The following examples might be cited to illustrate such situations.

a. A self-regulatory body can impose and enforce obligations upon its members. If those obligations are enforced similarly to how legally enforceable obligations would be enforced, even though the consequences of enforcement might differ somewhat, they are regarded as the equivalent of legally enforceable obligations.

b. In many wholesale diamond markets or other commodity markets throughout the world, exchanges are agreed upon based on oral discussions or non-verbal signals. Traders in such markets will only conduct business in that manner, with disputes settled by an arbitration process recognised by, and binding upon, the members of the market and affiliated markets. Obligations for economic burdens or requirements created under these circumstances may not be enforceable in court, but nonetheless may be enforceable by virtue of the rules and regulations of the trading organization. Traders that do not honour such obligations might be excluded from membership and, thus, from conducting any future trades in that market, thereby losing their livelihood, or be subject to other fines or penalties imposed by the regulatory body, the threat of which is sufficient to enforce performance.

[5] The Boards reached a similar decision in their joint project on revenue recognition.

c. Two or more parties might agree to accept the decisions of an arbitrator. Even though the arbitrator might be court-appointed and thus have legal backing, such legal backing is not necessary. Other mechanisms might make it very difficult for the parties to avoid abiding by the arbitrator's decision.

60. These examples highlight a couple of essential factors that *enforceable by equivalent means* has in common with legally enforceability.

    a. *Separate party* is involved. In the examples, a self-regulatory body and the diamond traders form a formal or informal group to represent the individual members or traders. In the case of the arbitrator, it is an individual appointed by the parties in dispute.

    b. *Mechanism* exists that is capable of forcing an entity to take a specified course of action or consequence. If that specified course of action is not taken by the entity, then the claimant or intended recipient of the action can seek assistance from the separate party to enforce the consequences. Again, in the examples above, the potential withdrawal of a license or qualification, rejection of a trader from trading in the diamond market, a fine or other penalty can have a significant effect on an entity. Those potential binding effects will result in the entity honouring the mechanism, both the process and the resulting decision.

    Though not essential, a developed set of principles or guidance may be used by the separate party to evaluate a situation. A self-regulatory body commonly establishes the minimum conduct requirement expected of its members and can use those requirements to evaluate whether the conduct of a member is appropriate or not. In the diamond traders' example, a similar set of accepted trading practices and arbitration has been developed.

61. Obligations that would not be enforced by a separate party or mechanism would not qualify for financial reporting purposes. For example, an entity would not have an enforceable obligation merely because its employees are on strike to demand additional compensation, because there is no mechanism or separate party by which to enforce any action. If a regulator became involved to arbitrate an existing labour contract, such a situation could result in an enforceable obligation because it could be enforced by legal or equivalent means.

62. The application of *enforceable by equivalent means* concept may result in apparently similar obligations qualifying as obligations for financial reporting purposes in one legal and operating environment, but not in another, different environment.

63. Such an analysis of what enforceable means, both legally and by other equivalent means, should be provided in the amplifying text to the definition of a liability.

64. *Do you agree that the factors identified in paragraph 60 describe the essential attributes of "legally enforceable or enforceable by other equivalent means"? Are there any additional factors that should be included?*

65. *Do you agree that "legally enforceable or enforceable by other equivalent means" should be described as outlined above in the amplifying text to the definition of a liability? If not, why not?*

Summary of Recommendations

66. We think that the Boards should take the opportunity to improve as well as to converge the definitions of a liability. Consistent with the changes made to the working definition of an asset, we think that the existing IASB and FASB liability definitions should be:

    a. Converged to focus on defining a liability as an economic obligation rather than as probable future sacrifices (see paragraphs 7-15).

    b. Improved by removing the assessment of likelihood (see paragraphs 16-25).

    c. Improved by replacing references to past transactions or other events, with a focus on the present (see paragraphs 26-30).

67. To develop a near mirror image of the asset definition, we propose that the definition of a liability be structured to first focus on a "bad thing" and then on how the entity is "linked" to that bad thing. Compared to the alternatives considered, we think that the terms, "economic burden or requirement" and "enforceable obligation" most clearly capture the intended meanings of these essential components (see paragraphs 33-51).

68. Compared with the definition of an asset, we think there is no need for an "other means" of access notion to capture situations when an entity's link to a present economic obligation is established by other than legally or other equivalently enforceable means (see paragraphs 53-54).

69. *Enforceable obligations* are those that are capable of being enforced and should not involve assessing to what degree the item may be enforceable by others upon an entity (see paragraphs 56-57).

70. To provide guidance on what *enforceable by equivalent means* is, we propose to describe its essential attributes in the amplifying text to the definition of a liability. Those essential attributes include the involvement of a separate party and that a mechanism exists that is capable of forcing an entity to take a specified course of action (see paragraphs 59-63).

71. We recommend the following definition of a liability:

> "A *liability* of an entity is a present economic burden or requirement to which the entity has an enforceable obligation." (see paragraph 50)

72. To provide additional guidance on the two key terms in the working definition of a liability, we propose that the following definitions be provided:

> "An *economic burden or requirement* is something that is scarce and capable of resulting in cash outflows or reduced cash inflows, directly or indirectly, alone or together with other economic burdens or requirements." (see paragraph 42)

> "An *enforceable obligation* establishes the link between the entity and the present economic burden or requirement. Obligations are legally enforceable or enforceable by equivalent means." (see paragraph 51)

73. *We request that the Boards agree to the tentative working definition of a liability for use as we proceed with other aspects of Phase B of the Conceptual Framework project.*