



**International  
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*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 14B)**

**Project: Conceptual Framework  
Phase B: Elements and Recognition –  
Liability Definition Examples**

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### **Introduction**

1. This paper applies the proposed definition of a liability in Agenda Paper 14A / FASB Memorandum 70A (Agenda Paper A), as well as the existing IASB and FASB definitions, to various situations and identifies issues arising from the application of those definitions.
2. The existing IASB and FASB definitions of a liability, as well as the proposed definition of a liability in Agenda Paper A are on the last page of this paper, so that they can be detached for reference purposes.
3. A number of these situations illustrate the perspective of the counter-party to assets illustrated in IASB Agenda Paper 16B / FASB Memorandum 66B in October 2007. Others have been drawn from those used at the December, 2006 AAA-FASB Conference (on the asset and liability definitions) and the 2007 AAA-FASB Conference (on revenue recognition) and from situations discussed during Board deliberations on this and other active projects.

4. As with the examples of assets illustrated in October 2007, the first few examples establish that those items that one would clearly expect to be liabilities do meet the definition of a liability. They also demonstrate aspects where we think that the proposed definition in Agenda Paper A is clearer than the existing IASB or FASB definitions. Other examples evaluate more complex situations, which draw out additional aspects of the existing definitions which we think require clarification and are clarified by the proposed definition of a liability in Agenda Paper A. We also provide a few examples of items that do not meet the proposed definition of a liability in Agenda Paper A.
5. The following comprises a list of the examples analysed. Board members might wish to be selective in the examples they review. Therefore, even though the analysis is sometimes repetitive, we have tried to be as complete as possible in the analysis of each example.
6. *Board members are requested to consider whether they agree with the analysis and are invited to provide additional examples which they think will demonstrate points in addition to those illustrated by these examples.*

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## Examples

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<b>Ex1. Bank overdraft by depositor</b>	<p><i>Economic burden or requirement:</i> Unconditional contractual promise to pay cash in accordance with terms of promise (including any required payments for interest or fees).</p> <p><i>Entity has an enforceable obligation:</i> Contract with bank establishes depositor as the obligor.</p> <p><i>Both presently exist:</i> Economic burden or requirement and obligation are set out in present enforceable contract with bank.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b> [Sentence omitted from Observer Notes.]</p> <p>As with many of the other examples:</p> <p><i>Focus on economic burden or requirement rather than obligation:</i> We think that it is clearer to focus first on the thing that exists—the unconditional contractual promise—rather than looking to what links the entity to that thing—the contractual obligation.</p> <p><i>Focus on economic burden or requirement rather than probable future sacrifices of economic benefits:</i> We think that it is clearer to focus on the entity’s economic burden or requirement—the <i>promise</i> of future cash outflows—rather than looking to the future cash flows themselves.</p> <p><i>Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:</i> We think that it is clearer to focus separately on: (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as a <i>present obligation of the entity</i>.</p> <p><i>Present economic burden or requirement rather than past event:</i> We think that it is clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract—containing the promise and the obligation, rather than seeking to identify the past event creating the promise and the obligation.</p>			

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<b>Ex2. Account payable</b>	<p><i>Economic burden or requirement:</i> Unconditional contractual promise to pay cash.</p> <p><i>Entity has an enforceable obligation:</i> Contract identifies the entity as the obligor.</p> <p><i>Both presently exist:</i> Economic burden or requirement and obligation are set out in present enforceable contract.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b> [Sentence omitted from Observer Notes.]</p> <p>An analysis similar to that for the account payable applies to other types of contracts that promise to pay cash in the future, such as a loan commitment to a potential borrower.</p> <p>As with many of the other examples:</p> <p><i>Focus on economic burden or requirement rather than obligation:</i> We think that it is clearer to focus first on the thing that exists—the unconditional contractual promise—rather than looking to what links the entity to that thing—the contractual obligation.</p> <p><i>Focus on economic burden or requirement rather than probable future sacrifices of economic benefits:</i> We think that it is clearer to focus on the entity’s economic burden or requirement—the <i>promise</i> of future cash outflows—rather than looking to the future cash flows themselves.</p> <p><i>Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:</i> We think that it is clearer to focus separately on: (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as <i>a present obligation of the entity</i>.</p> <p><i>Present economic burden or requirement rather than past event:</i> We think that it is clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract—containing the promise and the obligation, rather than seeking to identify the past event creating the promise and the obligation.</p>			

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<b>Ex3. Advances from customers</b>	<p><i>Economic burden or requirement:</i> Unconditional contractual promise to provide goods or services, which requires cash outflows to acquire or produce the goods or services, or a reduction in cash inflows from providing goods in stock. There might also be a promise of the return of cash if the promise is not performed.</p> <p><i>Entity has an enforceable obligation:</i> Contract identifies the entity as the obligor.</p> <p><i>Both presently exist:</i> Economic burden or requirement and obligation are set out in present enforceable contract.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]

**Comments:** [Sentence omitted from Observer Notes.]

As with many of the other examples:

*Focus on economic burden or requirement rather than obligation:* We think that it is clearer to focus first on the thing that exists—the unconditional contractual promise—rather than looking to what links the entity to that thing—the contractual obligation.

*Focus on economic burden or requirement rather than probable future sacrifices of economic benefits:* We think that it is clearer to focus on the entity's economic burden or requirement—the *promise* of future delivery of goods or services or cash outflows—rather than looking to the future cash flows themselves.

*Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:* We think that it is clearer to focus separately on: (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as a *present obligation of the entity*.

*Present economic burden or requirement rather than past event:* We think that it is clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract—containing the promise and the obligation, rather than seeking to identify the past event creating the promise and the obligation.

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<p><b>Ex4. Property lease</b> (Does the lessor have a liability?)</p>	<p><i>Economic burden or requirement:</i> Unconditional contractual promise to permit use of the property for a specified future period. Permitting use of the property by another party reduces the cash inflows that could otherwise be obtained from the property.</p> <p><i>Entity has an enforceable obligation:</i> Contract identifies the lessor as the obligor.</p> <p><i>Both presently exist:</i> Economic burden or requirement and obligation are set out in present enforceable contract.</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>
<p><b>Comments:</b> Whether the property and the liability to permit use of the property to another party for a specified period are shown together in financial reports is a matter for consideration in unit of account or presentation. [Sentences omitted from Observer Notes.]</p> <p>As with many of the other examples:</p> <p><i>Focus on economic burden or requirement rather than obligation:</i> We think that it is clearer to focus first on the thing that exists—the unconditional contractual promise—rather than looking to what links the entity to that thing—the contractual obligation.</p> <p><i>Focus on economic burden or requirement rather than probable future sacrifices of economic benefits:</i> We think that it is clearer to focus on the entity’s economic burden or requirement—the <i>promise</i> of future use of the property for a specified period of time—rather than looking to the future cash flows themselves.</p> <p><i>Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:</i> We think that it is clearer to focus separately on: (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as a <i>present obligation of the entity</i>.</p> <p><i>Present economic burden or requirement rather than past event:</i> We think that it is clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract—containing the promise and the obligation, rather than seeking to identify the past event creating the promise and the obligation.</p>			

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<p><b>Ex5. Easement written</b> (For example, a right of way across a property.)</p>	<p><i>Economic burden or requirement:</i> Unconditional contractual promise to permit access across the property is capable of resulting in reduced cash inflows from some uses of the property. In order to extinguish or transfer the burden or requirement an outflow of cash would probably be required.</p> <p><i>Entity has an enforceable obligation:</i> Contract identifies the entity as the obligor—obliged to permit access across the property.</p> <p><i>Both presently exist:</i> Economic burden or requirement and obligation are set out in present enforceable contract.</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>

**Comments:** Whether the property and the liability to permit access across the property are shown together in financial reports is a matter for consideration in unit of account or presentation. [Sentences omitted from Observer Notes.]

As with many of the other examples:

*Focus on economic burden or requirement rather than obligation:* We think that it is clearer to focus first on the thing that exists—the unconditional contractual promise—rather than looking to what links the entity to that thing—the contractual obligation.

*Focus on economic burden or requirement rather than probable future sacrifices of economic benefits:* We think that it is clearer to focus on the entity's economic burden or requirement—the *promise* of future cash outflows—rather than looking to the future cash flows themselves.

*Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:* We think that it is clearer to focus separately on (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as *a present obligation of the entity*.

*Likelihood:* We think that it is clearer to eliminate the consideration of likelihood [Phrase omitted from Observer Notes].

*Present economic burden or requirement rather than past event:* We think that it is clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract—containing the promise and the obligation, rather than seeking to identify the past event creating the promise and the obligation.



Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<b>Ex6. Warranty written on machinery</b>	<p><i>Economic burden or requirement:</i> Unconditional contractual promise to provide coverage to restore machinery to a functioning state if the machinery should fail. The promise is capable of resulting in cash outflows to repair the machinery or otherwise compensate the other party for loss.</p> <p><i>Entity has an enforceable obligation:</i> Contract identifies the entity as the obligor.</p> <p><i>Both presently exist:</i> Economic burden or requirement and obligation are set out in present enforceable contract.</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>

**Comments:** [Sentences omitted from Observer Notes.]

As with many of the other examples:

*Focus on economic burden or requirement rather than obligation:* We think that it is clearer to focus first on the thing that exists—the unconditional contractual promise—rather than looking to what links the entity to that thing—the contractual obligation.

*Focus on economic burden or requirement rather than probable future sacrifices of economic benefits:* We think that it is clearer to focus on the entity's economic burden or requirement—the *promise* of warranty coverage—rather than looking to the future cash flows themselves.

*Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:* We think that it is clearer to focus separately on (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as a *present obligation of the entity*.

*Likelihood:* We think that it is clearer to eliminate the consideration of likelihood [Phrase omitted from Observer Notes].

*Present economic burden or requirement rather than past event:* We think that it is clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract—containing the promise and the obligation, rather than seeking to identify the past event creating the promise and the obligation.

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<b>Ex7. Loan guarantee written</b>	<p><i>Economic burden or requirement:</i> Unconditional contractual promise to provide coverage—that is, to stand ready to pay cash for amounts not repaid by the borrowing party. In order to extinguish or transfer the burden or requirement an outflow of cash would probably be required.</p> <p><i>Entity has an enforceable obligation:</i> Contract identifies the entity as the obligor.</p> <p><i>Both presently exist:</i> Economic burden or requirement and obligation are set out in present enforceable contract.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]

**Comments:**

As with many of the other examples:

*Focus on economic burden or requirement rather than obligation:* We think that it is clearer to focus first on the thing that exists—the unconditional contractual promise—rather than looking to what links the entity to that thing—the contractual obligation.

*Focus on economic burden or requirement rather than probable future sacrifices of economic benefits:* We think that it is clearer to focus on the entity's economic burden or requirement—the *promise* of coverage resulting in cash outflows—rather than looking to the future cash flows themselves.

*Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:* We think that it is clearer to focus separately on (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as a *present obligation of the entity*.

*Likelihood:* We think that it is clearer to eliminate the consideration of likelihood [Phrase omitted from Observer Notes].

*Present economic burden or requirement rather than past event:* We think that it is clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract—containing the promise and the obligation, rather than seeking to identify the past event creating the promise and the obligation.

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<p><b>Ex8. Written contract to deliver future music revenues from the sale of copies of existing recordings –</b> (Does the writer of the contract have a liability?) (Property rights to music and recordings are retained by the writer of the contract)</p>	<p><i>Economic burden or requirement:</i> Unconditional contractual promise of any revenues from the sale of copies of the existing recordings which can produce cash outflows. In order to extinguish or transfer the burden or requirement an outflow of cash would probably be required.</p> <p><i>Entity has an enforceable obligation:</i> Contract identifies the entity as the obligor</p> <p><i>Both presently exist:</i> Economic burden or requirement and obligation are set out in present enforceable contract.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]

**Comments:** [Sentences omitted from Observer Notes.]

[Phrase omitted from Observer Notes], this might be an example [Phrase omitted from Observer Notes] that is difficult to measure.

As with many of the other examples:

*Focus on economic burden or requirement rather than obligation:* We think that it is clearer to focus first on the thing that exists—the unconditional promise—rather than looking to what links the entity to that thing—the contractual obligation.

*Focus on economic burden or requirement rather than probable future sacrifices of economic benefits:* We think that it is clearer to focus on the entity's economic burden or requirement—the *promise* of future cash outflows—rather than looking to the future cash flows themselves.

*Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:* We think that it is clearer to focus separately on (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as *a present obligation of the entity*.

*Likelihood:* We think that it is clearer to eliminate the consideration of likelihood [Phrase omitted from Observer Notes.]

*Present economic burden or requirement rather than past event:* We think that it is clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract—containing the promise and the obligation, rather than seeking to identify the past event creating the promise and the obligation.

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<p><b>Ex8A. Written contract to deliver future music revenues from the sale of copies of future recordings of music yet to be written</b></p> <p>(Does the writer of the contract have a liability?)</p> <p>(Property rights to music and recordings to be created will be retained by the writer of the contract.)</p>	<p>Analysis is no different from Example 8 above, except that the reference to “existing recordings” should be replaced with “future recordings of future music.”</p>		
<p><b>Comments:</b> This example demonstrates that it is the capability of outflows of economic resources that is important, rather than the likelihood of such outflows.</p> <p>As with many of the other examples:</p> <p><i>Focus on economic burden or requirement rather than obligation:</i> We think that it is clearer to focus first on the thing that exists—the unconditional contractual promise—rather than looking to what links the entity to that thing—the contractual obligation.</p> <p><i>Focus on burden or requirement rather than probable future sacrifices of economic benefits:</i> We think that it is clearer to focus on the entity’s economic burden or requirement—the <i>promise</i> of future cash outflows—rather than looking to the future cash flows themselves. Even though the writer of the contract can decide whether to make future recordings or write music in the future, the burden or requirement exists at the balance sheet date.</p> <p><i>Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:</i> We think that it is clearer to focus separately on (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as a <i>present obligation of the entity</i>.</p> <p><i>Likelihood:</i> [Sentence omitted from Observer Notes.]</p> <p><i>Present economic burden or requirement rather than past event:</i> We think that it is clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract—containing the promise</p>			

<b>Liability</b>	<b>Proposed Definition in Agenda Paper A</b>	<b>IASB Definition</b>	<b>FASB Definition</b>
and the obligation, rather than seeking to identify the past event creating the promise and the obligation. In this situation, that helps to direct one more clearly towards the contract, rather than the future revenues and recordings.			

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<b>Ex9. Written non-compete agreement</b>	<p><i>Economic burden or requirement:</i> Unconditional contractual promise to refrain from undertaking a specified business or activity, which can result in reduced cash inflows, or (if it breaches the non-compete agreement) cash outflows to obtain release from the promise or to pay damages to other party.</p> <p><i>Entity has an enforceable obligation:</i> Contract identifies the entity as the obligor.</p> <p><i>Both presently exist:</i> Economic burden or requirement and obligation are set out in present enforceable contract.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]

**Comments:**

As with many of the other examples:

*Focus on economic burden or requirement rather than obligation:* We think that it is clearer to focus first on the thing that exists—the unconditional contractual promise—rather than looking to what links the entity to that thing—the contractual obligation.

*Focus on burden or requirement rather than probable future sacrifices of economic benefits:* We think that it is clearer to focus on the entity's economic burden or requirement—the *promise* of future cash outflows—rather than looking to the future cash flows themselves.

*Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:* We think that it is clearer to focus separately on (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as a *present obligation of the entity*.

*Likelihood:* We think it clearer to eliminate the consideration of likelihood [Phrase omitted from Observer Notes.].

*Present economic burden or requirement rather than past event:* We think that it is clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract—containing the promise and the obligation, rather than seeking to identify the past event creating the promise and the obligation.

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<p><b>Ex10. Lottery ticket</b> (Lottery perspective.) (Does the lottery have a liability relating to tickets sold before the reporting date for a draw to be held after the reporting date?)</p>	<p><i>Economic burden or requirement:</i> Unconditional contractual promise to permit participation in draw (with possibility of winning the cash prize if the ticket is the winning ticket). Promise is capable of resulting in outflow of cash from awarding the prize, transferring the burden or requirement to others or, possibly, providing refunds for the tickets sold.</p> <p><i>Entity has an enforceable obligation:</i> Contract (ticket) identifies the lottery as the obligor.</p> <p><i>Both presently exist:</i> Economic burden or requirement and obligation are set out in present enforceable contract (on, or accompanying, the ticket).</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>
<p><b>Comments:</b></p> <p>As with many of the other examples:</p> <p><i>Focus on economic burden or requirement rather than obligation:</i> We think that it is clearer to focus first on the thing that exists—the unconditional contractual promise—rather than looking to what links the entity to that thing—the contractual obligation.</p> <p><i>Focus on burden or requirement rather than probable future sacrifices of economic benefits:</i> We think that it is clearer to focus on the lottery’s economic burden or requirement—the <i>promise</i> of future cash outflows—rather than looking to the future cash flows themselves. The ticket permitting participation in the draw exists at the balance sheet date, even though the draw will not take place until a later date.</p> <p><i>Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:</i> We think that it is clearer to focus separately on (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as a <i>present obligation of the entity</i>.</p> <p><i>Present economic burden or requirement rather than past event:</i> We think that it is clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract—containing the promise and the obligation, rather than seeking to identify the past event creating the promise and the obligation.</p>			

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<b>Ex11. Insurance coverage written</b>	<p><i>Economic burden or requirement:</i> Unconditional contractual promise to provide insurance coverage (for reimbursement of loss or compensation if a future event occurs) that is capable of resulting in cash outflows for a valid claim, or from the return of cash if the remainder of the term is cancelled by the insurer.</p> <p><i>Entity has an enforceable obligation:</i> Contract identifies the insurer as the obligor.</p> <p><i>Both presently exist:</i> Economic burden or requirement and obligation are set out in present enforceable contract.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]

**Comments:**

As with many of the other examples:

*Focus on economic burden or requirement rather than obligation:* We think that it is clearer to focus first on the thing that exists—the unconditional contractual promise—rather than looking to what links the entity to that thing—the contractual obligation.

*Focus on burden or requirement rather than probable future sacrifices of economic benefits:* We think that it is clearer to focus on the entity's economic burden or requirement—the *promise* of insurance coverage, resulting in future cash outflows—rather than looking to the future cash flows themselves. The promise of insurance coverage exists at the balance sheet date, even though claims may, or may not, take place until a later date.

*Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:* We think that it is clearer to focus separately on (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as a *present obligation of the entity*.

*Present economic burden or requirement rather than past event:* We think that it is clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract—containing the promise and the obligation, rather than seeking to identify the past event creating the promise and the obligation.



Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<p><b>Ex12. Lease contract with rent based only on future sales</b> (Does the lessee have a liability?)</p>	<p><i>Economic burden or requirement:</i> Unconditional contractual promise to make payments in the future as long as there is a capability of future sales. In order to extinguish or transfer the burden or requirement an outflow of cash would probably be required.</p> <p><i>Entity has an enforceable obligation:</i> Contract identifies the entity as the obligor.</p> <p><i>Both presently exist:</i> Economic burden or requirement and obligation are set out in present enforceable contract.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]

**Comments:**

As with many of the other examples:

*Focus on economic burden or requirement rather than obligation:* We think that it is clearer to focus first on the thing that exists—the unconditional contractual promise—rather than looking to what links the entity to that thing—the contractual obligation.

*Focus on burden or requirement rather than probable future sacrifices of economic benefits:* We think that it is clearer to focus on the entity's economic burden or requirement—the *promise* of future cash outflows—rather than looking to the future cash flows themselves. [Sentence omitted from Observer Notes.]. There are requirements in accordance with the contract, from which cash outflows may result, as long as there are future sales.

*Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:* We think that it is clearer to focus separately on (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as a *present obligation of the entity*.

*Present economic burden or requirement rather than past event:* We think that it is clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract—containing the promise and the obligation, rather than seeking to identify the past event creating the promise and the obligation.

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<b>Ex13.</b> <b>Forward contract to purchase corn</b>	<i>Economic burden or requirement:</i> Unconditional contractual promise to pay cash in exchange for corn when delivered. In order to extinguish or transfer the burden or requirement an outflow of cash would probably be required.  <i>Entity has an enforceable obligation:</i> Contract identifies the entity as the obligor.  <i>Both presently exist:</i> Economic burden or requirement and obligation are set out in present enforceable contract.	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]

**Comments:** There is a question here as to whether to look at the contract as a whole, or the individual assets or liabilities inherent in it—that is, is there a separate unconditional liability to pay for the corn and an unconditional asset to receive the corn in exchange, or should they be viewed in combination? That is a matter for unit of account / presentation.

As with many of the other examples:

*Focus on economic burden or requirement rather than obligation:* We think that it is clearer to focus first on the thing that exists—the unconditional contractual promise—rather than looking to what links the entity to that thing—the contractual obligation.

*Focus on burden or requirement rather than probable future sacrifices of economic benefits:* We think that it is clearer to focus on the entity's economic burden or requirement—the *promise* of future cash outflows—rather than looking to the future cash flows themselves. [Sentence omitted from Observer Notes.]

*Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:* We think that it is clearer to focus separately on (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as *a present obligation of the entity*.

*Present economic burden or requirement rather than past event:* We think that it is clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract—containing the promise and the obligation, rather than seeking to identify the past event creating the promise and the obligation.

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<b>Ex14. Oil spill remediation</b>	<p><i>Economic burden or requirement:</i> Statute or law requires outflow of cash to bear costs of cleaning up oil spill.</p> <p><i>Entity has an enforceable obligation:</i> Once the entity has responsibility for the spill, the statute or law indirectly identifies the entity as the obligor.</p> <p><i>Both presently exist:</i> Economic burden or requirement and obligation are set out in statute or law that is presently enforceable.</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>
<p><b>Comments:</b> In this situation, while the entity spilling the oil is not specifically named in the statute or law, once the entity has responsibility for the oil spill, the statute or law is sufficiently specific for it to be clear that it is the entity that must bear the costs of the clean-up.</p> <p>If there is no legal burden or requirement to bear costs of the clean-up, whether there is a liability will depend on whether there is another means by which an obligation is enforceable on the entity. In some jurisdictions, specific actions of the entity, such as a statement accepting responsibility and agreeing to bear the costs of clean-up, might be sufficient to be enforceable in a court of law under legal doctrines such as promissory estoppel. [Sentence omitted from Observer Notes.]</p> <p>As with many of the other examples:</p> <p><i>Focus on economic burden or requirement rather than obligation:</i> We think that it is clearer to focus first on the thing that exists—the burden or requirement to bear costs of the clean-up—rather than looking to what links the entity to that thing—the statutory or legal obligation.</p> <p><i>Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:</i> We think that it is clearer to focus separately on (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as a <i>present obligation of the entity</i>.</p> <p><i>Present economic burden or requirement rather than past event:</i> We think that it is clearer, and more direct, to focus on whether the entity presently has an economic burden or requirement, rather than seeking to identify the past event creating the economic burden or requirement.</p>			

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<b>Ex15. Refunds to customers—stated policy</b>	<p><i>Economic burden or requirement:</i> Unconditional contractual promise to provide refund, which can result in cash outflows.</p> <p><i>Entity has an enforceable obligation:</i> Contract identifies the entity as the obligor.</p> <p><i>Both presently exist:</i> Economic burden or requirement and obligation are set out in present enforceable contract.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b> [Sentence omitted from Observer Notes.]</p> <p>As with many of the other examples:</p> <p><i>Focus on economic burden or requirement rather than obligation:</i> We think that it is clearer to focus first on the thing that exists—the unconditional contractual promise—rather than looking to what links the entity to that thing—the contractual obligation.</p> <p><i>Focus on burden or requirement rather than probable future sacrifices of economic benefits:</i> We think that it is clearer to focus on the entity’s economic burden or requirement—the <i>promise</i> of future cash outflows—rather than looking to the future cash flows themselves. [Sentence omitted from Observer Notes.]</p> <p><i>Likelihood:</i> We think that it is clearer to eliminate the consideration of likelihood, [Phrase omitted from Observer Notes.]</p> <p><i>Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:</i> We think that it is clearer to focus separately on: (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as <i>a present obligation of the entity</i>.</p> <p><i>Present economic burden or requirement rather than past event:</i> We think that it is clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract—containing the promise and the obligation, rather than seeking to identify the past event creating the promise and the obligation.</p>			

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<b>Ex15A. Refunds to customers—no stated policy</b>	<p><i>Economic burden or requirement:</i> No economic burden or requirement, unless established by past practice or actions.</p> <p><i>Entity has an enforceable obligation:</i> If there is a burden or requirement based on entity's past practice or actions, then the entity is obligated and that obligation can be enforced in accordance with the law.</p> <p><i>Both presently exist:</i> Not applicable, unless past practice or actions. No economic burden or requirement or enforceable obligation. If there is a burden or requirement based on past practice or actions, then economic burden or requirement and obligation presently exist.</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>
<p><b>Comments:</b> [Sentences omitted from Observer Notes.]</p> <p>As with many of the other examples:</p> <p><i>Focus on burden or requirement rather than probable future sacrifices of economic benefits:</i> We think that it is clearer to focus on the entity's economic burden or requirement—the <i>promise</i> of future cash outflows—rather than looking to the future cash flows themselves. [Sentence omitted from Observer Notes.]</p> <p><i>Likelihood:</i> We think it clearer to eliminate the consideration of likelihood [Phrase omitted from Observer Notes.]</p> <p><i>Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:</i> We think that it is clearer to focus separately on (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as a <i>present obligation of the entity</i>.</p> <p><i>Present economic burden or requirement rather than past event</i> We think that it is clearer, and more direct, to focus on whether the entity presently has an economic burden or requirement, rather than seeking to identify the past event creating the economic burden or requirement.</p>			

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<b>Ex16. Announced redundancy plan</b>	<p><i>Economic burden or requirement:</i> Unconditional promise to pay cash in accordance with plan.</p> <p><i>Entity has an enforceable obligation:</i> Plan identifies the entity as the obligor.</p> <p><i>Both presently exist:</i> Economic burden or requirement and obligation are set out in plan.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b> [Sentences omitted from Observer Notes.]</p> <p>As with many of the other examples:</p> <p><i>Focus on economic burden or requirement rather than obligation:</i> We think that it is clearer to focus first on the thing that exists—an unconditional promise—rather than looking to what links the entity to that thing—the contractual obligation.</p> <p><i>Focus on burden or requirement rather than probable future sacrifices of economic benefits:</i> We think that it is clearer to focus on the entity’s economic burden or requirement—the <i>promise</i> of future cash outflows—rather than looking to the future cash flows themselves. [Sentence omitted from Observer Notes.]</p> <p><i>Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:</i> We think that it is clearer to focus separately on (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as <i>a present obligation of the entity</i>.</p> <p><i>Present economic burden or requirement rather than past event:</i> We think that it is clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract—containing the promise and the obligation, rather than seeking to identify the past event creating the promise and the obligation.</p>			

Liability	Proposed Definition in Agenda Paper A	IASB Definition	FASB Definition
<b>Ex17. Announced product recall</b>	<p><i>Economic burden or requirement:</i> Unconditional promise to pay cash, or forgo cash inflows by replacing product free-of-charge, in accordance with recall programme.</p> <p><i>Entity has an enforceable obligation:</i> Recall programme identifies the entity as the obligor.</p> <p><i>Both presently exist:</i> Economic burden or requirement and obligation are set out in recall programme.</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>
<p><b>Comments:</b> [Sentence omitted from Observer Notes.]</p> <p>As with many of the other examples:</p> <p><i>Focus on economic burden or requirement rather than obligation:</i> We think that it is clearer to focus first on the thing that exists—an unconditional promise—rather than looking to what links the entity to that thing—the contractual obligation.</p> <p><i>Focus on burden or requirement rather than probable future sacrifices of economic benefits:</i> We think that it is clearer to focus on the entity’s economic burden or requirement—the <i>promise</i> of future cash outflows—rather than looking to the future cash flows themselves. [Sentence omitted from Observer Notes.]</p> <p><i>Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:</i> We think that it is clearer to focus separately on (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as a <i>present obligation of the entity</i>.</p> <p><i>Present economic burden or requirement rather than past event:</i> We think that it is clearer, and more direct, to focus on whether the entity presently has an economic burden or requirement, rather than seeking to identify the past event creating the economic burden or requirement.</p>			

<b><u>Not a Liability</u></b>	<b>Proposed Definition in Agenda Paper A</b>	<b>IASB Definition</b>	<b>FASB Definition</b>
<p><b>Ex18. To obey the law</b> (A requirement of all.)</p>	<p><i>Economic burden or requirement:</i> No economic burden or requirement because a requirement to obey the law of a particular jurisdiction is a requirement of all subject to that jurisdiction. It is not scarce, even though it might be viewed as burdensome.</p> <p><i>Entity has an enforceable obligation:</i> There is no economic burden or requirement to enforce.</p> <p><i>Both presently exist:</i> Not applicable. There is no economic burden or requirement or linkage to the entity.</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>
<p><b>Comments:</b> In the proposed definition in Agenda Paper A, a requirement to obey the law does not meet the definition of a liability because there is no <i>economic</i> burden or requirement. [Sentence omitted from Observer Notes.]</p> <p>An analysis similar to this example applies to other types of public duties.</p> <p>As with many of the other examples:</p> <p><i>Focus on economic burden or requirement rather than obligation:</i> We think that it is clearer to focus first on the thing that exists—which, in this case, is not an economic burden or requirement—rather than looking to what links the entity to that thing—the obligation to obey the law, and only later concluding that there is nothing to settle as a result of that obligation.</p> <p><i>Focus on burden or requirement rather than probable future sacrifices of economic benefits:</i> We think that it is clearer to focus on the entity’s economic burden or requirement—the <i>promise</i> of future cash outflows—rather than looking to the future cash flows themselves. [Sentence omitted from Observer Notes.]</p> <p><i>Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:</i> We think that it is clearer to focus separately on: (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as <i>a present obligation of the entity</i>.</p>			



<b><u>Not a Liability</u></b>	<b>Proposed Definition in Agenda Paper A</b>	<b>IASB Definition</b>	<b>FASB Definition</b>
<p><b>Ex19. Future purchases by an established business</b> (Entity has high likelihood of making future cash payments for goods purchased or services to be provided in the next year.)</p>	<p><i>Economic burden or requirement:</i> No economic burden or requirement because the entity does not have any unconditional promises to purchase goods or services or pay outflows of cash.</p> <p><i>Entity has an enforceable obligation:</i> No—no contracts have been entered into.</p> <p><i>Both presently exist:</i> No. There are no contracts.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<b>Comments:</b> [Sentence omitted from Observer Notes.]			
<p><b>Ex20. Discretionary employee bonuses</b></p>	<p><i>Economic burden or requirement:</i> Payment of bonuses is capable of resulting in cash outflows. However, that is not required unless the entity's past practices or actions create a valid expectation.</p> <p><i>Entity has an enforceable obligation:</i> No enforceable obligation—another party cannot require entity to pay bonuses (unless past practices or actions deem so).</p> <p><i>Both presently exist:</i> Not applicable. No enforceable obligation.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]

<b>Not a Liability</b>	<b>Proposed Definition in Agenda Paper A</b>	<b>IASB Definition</b>	<b>FASB Definition</b>
<p><b>Comments:</b> In question in this example, is whether there is an economic burden or requirement. [Sentences omitted from Observer Notes.]</p> <p>As with many of the other examples:</p> <p><i>Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:</i> We think that it is clearer to focus separately on (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as <i>a present obligation of the entity</i>.</p> <p><i>Likelihood:</i> We think that it is clearer to eliminate the consideration of [Phrase omitted from Observer Notes.]</p> <p><i>Present economic burden or requirement rather than past event:</i> We think that it is clearer, and more direct, to focus on whether the entity presently has an economic burden or, rather than seeking to identify the past event creating the economic burden or requirement.</p>			
<p><b>Ex21. Legal requirement to install air filters at a future date</b></p>	<p><i>Economic burden or requirement:</i> Law requires installation of air filters, which would require outflow of cash to install.</p> <p><i>Entity has an enforceable obligation:</i> The lack of air filters makes the entity the obligor, which can be enforced in accordance with the law.</p> <p><i>Both presently exist:</i> No present burden or requirement or enforceable obligation. Law is enforceable on the entity only in the future.</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>
<p><b>Comments:</b> [Sentence omitted from Observer Notes.]</p> <p>As with many of the other examples:</p> <p><i>Focus on burden or requirement rather than probable future sacrifices of economic benefits:</i> We think that it is clearer to focus on the entity’s economic burden or requirement—the <i>promise</i> of future cash outflows—rather than looking to the future cash flows themselves. [Sentence omitted from Observer Notes.]</p> <p><i>Separate the economic burden or requirement from the linkage of the entity to that economic burden or requirement:</i> We think that it is clearer to focus separately on (i) the economic burden or requirement, and (ii) the linkage of that requirement to the entity—the enforceable obligation, rather than combining these aspects as <i>a present obligation of the entity</i>.</p>			

<b><u>Not a Liability</u></b>	<b>Proposed Definition in Agenda Paper A</b>	<b>IASB Definition</b>	<b>FASB Definition</b>
<p><i>Likelihood:</i> We think that it is clearer to eliminate the consideration of likelihood [Phrase omitted from Observer Notes.]</p> <p><i>Present economic burden or requirement rather than past event:</i> We think that it is clearer, and more direct, to focus on whether the entity presently has an economic burden or requirement, rather than seeking to identify the past event creating the economic burden or requirement.</p>			



## EXISTING AND PROPOSED DEFINITIONS—FOR REFERENCE

### Existing IASB and FASB Definitions of a Liability

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]

**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. [CON 6, paragraph 35; footnote references omitted.]

### Proposed Definition of a Liability

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

- a. 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.
- b. 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.

Note that the definition focuses on the *capability* of requiring cash outflows (or reduced cash inflows), rather than on the cash flows themselves that may result from that capability.