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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

SAC Meeting: February 2007, London
Project: Conceptual Framework
Phase B: Elements: Definition of an Asset
(Agenda Paper 4A)

Introduction

1. Staff of the joint IASB/FASB Conceptual Framework project have prepared this paper to seek counsel on a working definition of an asset. The IASB and the FASB (the Boards) have discussed versions of this definition on several occasions, but have not yet reached final conclusions. In October 2006, the Boards supported the staff's plan to consult with selected informal technical experts, as well as their Advisory Councils/Committees, concerning the working definition of an asset, while at the same time continuing work on remaining milestones within Phase B. We¹ hope that this consultation will help to ensure a robust definition of an asset—a definition that is the fundamental starting point for other parts of the conceptual framework.

¹ “We” is used in this paper to refer to the staff working on the asset definition aspect of the Conceptual Framework project. These views do not necessarily represent the views of the Boards, which are reached only after due process, or of other staff members.

2. Development of the asset definition is the first step of a multi-step process to determine how to account for an asset. The Boards' discussions to date, and this paper, focus on the existence of an asset and NOT on whether it should be recognized or how it should be measured. Recognition and measurement involve other matters, including cost-benefit considerations, that will be considered in later parts of the project. Therefore, conclusions reached as to what items meet the proposed working definition of an asset do not necessarily mean that all assets (as defined) would be recognized in financial statements.
3. Further work on the unit of account also remains to be considered later in the project. However, we think that the proposed working definition of an asset can provide some insights in that regard, by helping us to identify what it is that constitutes an asset.
4. This paper summarizes the need to change and improve on the existing definitions of an asset and discusses each of the key aspects of the proposed working definition of an asset that the Boards think will achieve the desired improvements. It then sets out the working definition and raises a series of questions, which are directed at learning whether the intended improvements are desirable and can be achieved. The Boards also seek to learn of any potential negative consequences that readers may foresee, and if any, whether and how those can be overcome.
5. Part 1 of this paper sets out the existing and proposed definitions of an asset. Part 2 explains the need to change the existing definitions. Part 3 comprises a working draft of text that we propose would be included in a revised Conceptual Framework. Part 4 contains questions on which we would appreciate your views. Appendix A to the paper sets out existing definitions of the IASB, FASB, other national accounting standards setters, and others for reference purposes. Appendix B includes a proposed draft of a possible definition of a liability that parallels that of an asset. This definition is included for reference purposes only to demonstrate that it is possible to draft a parallel definition of a liability, since one entity's liability generally is the counterpart to another entity's asset. The Boards have not yet discussed this draft definition of a liability, and we are not requesting comments on it.

Part 1—Existing and Proposed Definitions of an Asset

6. The existing IASB and FASB definitions of an asset are as follows:²

An **asset** is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. [IASB Framework, paragraph 49]

Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. [CON 6, paragraph 25; Footnote reference omitted.]

7. Based on the shortfalls identified and proposed changes, outlined in Part 2 of this paper, the Boards are seeking counsel on the following working definition of an asset, which is the latest version discussed by the Boards in November 2006:

An **asset** is a present economic resource to which the entity has a present right or other privileged access.

- a. *Present* means that both the economic resource and the right or other privileged access to it exist on the date of the financial statements.
- b. An *economic resource* is something that has positive economic value. It is scarce and capable of being used to carry out economic activities such as production and exchange. It can contribute to producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources. Economic resources include non-conditional contractual promises that others make to the entity, such as promises to pay cash, deliver goods, or render services. Rendering services includes standing ready to perform or refraining from engaging in activities that the entity could otherwise undertake.
- c. A *right or other privileged access* enables the entity to use the present economic resource directly or indirectly and precludes or limits its use by others. *Rights* are legally enforceable or enforceable by equivalent means (such as by a professional association). Other privileged access is not enforceable, but is otherwise protected by secrecy or other barriers to access.

² Appendix A to this paper shows existing definitions of others that the Boards and their staff have considered.

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

Part 3 of this paper includes a working draft of amplifying text to accompany the definition.

Part 2—Need to Change the Existing Definitions

8. Assets are the most fundamental real-world economic phenomena that financial reporting seeks to portray. If the definition of an asset is too vague or subject to interpretation, then the foundation of financial reporting is at risk of being undermined. Therefore, it is necessary that this definition be as robust as possible. The following paragraphs outline some of the shortfalls of the existing IASB and FASB asset definitions and explain how the proposed working definition seeks to overcome those shortfalls.
9. *Likelihood*—Likelihood (“expected” in the case of the IASB and “probable” in the case of the FASB) was included in the existing definitions in response to constituents’ concerns on earlier proposals that the definitions would require that an item be certain in order to qualify as an asset. Since few things in life are certain, the Boards observed that few items that are commonly thought to be assets would qualify in accordance with the definition. Accordingly, the Boards 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.
10. Both the IASB and FASB definitions have been misinterpreted as implying that there must be a high likelihood of future economic benefits for the definition to be met. Thus, some think that when there is a low likelihood of future economic benefits, the asset definition is not met. That is not the intent.³
11. To avoid this continued misinterpretation, the working definition clarifies that it does not depend on an assessment of a degree of likelihood. The Boards think it is sufficient that an economic resource be capable of producing cash inflows or reducing cash outflows—that is, the probability of positive cash flows is greater than zero. If there is any question of likelihood to be considered, that might be a factor in assessing whether a particular asset (or

³ A footnote to the FASB Definition in CON 6, paragraph 25, footnote 18, attempts to explain that, but perhaps not as effectively as it might.

asset class) qualifies for recognition or in determining its measurement, not in the definition of an asset.⁴

12. *Future economic benefits*—This phrase, used in both the IASB and FASB definitions, focuses on identifying a future flow of economic benefits to demonstrate that an asset exists. The Boards think that is the wrong focus. Financial statements can be viewed as reporting on things that exist (sometimes referred to as *stocks*) and changes in things that exist (sometimes referred to as *flows*). The Boards think that the definition of an asset should focus on stocks—the things, both tangible and intangible, that are capable of producing cash inflows or reducing cash outflows. An asset is not an inflow, but rather an inflow may result from it. The problem is that the existing FASB definition defines a ‘stock’ by reference to a ‘flow.’
13. Additionally, an asset is something that exists in the present rather than in the future. However, the wording in the existing definitions suggests otherwise by equating the asset with *future* economic benefits. This is sometimes misinterpreted as meaning that the asset is the ultimate future inflow. This can lead to a conclusion that some items, such as research in progress or lottery tickets, are not assets, because the *future* economic benefit is associated with a future event—the successful outcome of the research or the drawing of the winning ticket. As applied to research in progress, that argument confuses the eventual outcome of the particular research project with the present research knowledge to which the entity has present access. Similarly, as applied to the lottery ticket, that argument confuses the cash prize with the right to participate in the lottery drawing for the prize.⁵
14. To avoid this misinterpretation, the working definition replaces *future economic benefits* with *present economic resources*. The use of *economic resources* rather than *economic benefits* indicates that the item is a stock, rather than a flow, and the use of *present* rather than *future* indicates that the item must presently exist.

⁴ As noted previously (see paragraph 2 of this paper), recognition and measurement will be considered in later parts of the conceptual framework project.

⁵ The measure of such an asset might be very small, or immaterial, if the likelihood of future cash inflows is remote or the future cash flow is small. Nonetheless, that does not mean that an asset does not exist.

15. *Control*—In applying the existing definitions, some view *control* of a resource (IASB), or of probable future economic benefits (FASB), as being used in the same sense as that used for purposes of consolidation accounting. The Boards think that was not the intention.
16. In today’s complex business world, the Boards think the term “rights or other privileged access” better reflects the manner in which an entity is associated with economic resources than control. It is not necessary that an entity controls the economic resource—merely that it has some rights or other privileged access to it. “Rights or other privileged access”—a term, derived from the UK *Statement of Principles for Financial Reporting*⁶—reflects an entity’s ability to use a particular economic resource and the fact that others’ use of the resource is limited or precluded.
17. Rights are the most common mechanism that society uses to distinguish who has access to specific resources (i.e., to distinguish who is linked to a resource). Rights can be legally enforceable, but can also be enforceable by other equivalent means, such as those arising within a self-regulatory structure such as a professional organization. An example is the right to practice as an accountant, when that right is conferred on a qualified individual or firm by a professional accounting organization. If such rights are enforced similarly to how rights would be legally enforced (even though the consequences of enforcement might differ somewhat), they are regarded as the equivalent of legally enforceable rights.
18. An entity also can access an economic resource in the absence of rights. For example, an entity might have no enforceable right to secret know-how, or an unpatented invention, but access to it by others is protected by secrecy. Similarly, economic barriers might keep customers tied to an entity or keep competitors away, even though the entity has no enforceable rights. This is the case, for example, when there are significant training or other costs that exceed the benefits of switching to a competitors’ services or when there are significant barriers to market entry. The preclusion or limitation of access by others to an economic resource also demonstrates an entity’s association with that economic resource—it demonstrates the existence of *privileged access*.

⁶ Accounting Standards Board, *Statement of Principles for Financial Reporting*, October 1999

19. *Past transaction or event*—The Boards think that references to “past event” (IASB), or “past transactions or events” (FASB), were included in the definitions primarily to exclude future assets from meeting the definition. However, in applying both the IASB and FASB definitions, some place undue emphasis on identifying the past transaction or other event that gave rise to an asset. Though that identification might be helpful, it can be a distraction and lead to debates about which event is the triggering event instead of focusing on whether the economic resource and the access to it exist at the balance sheet date. How the economic resource and access to it were obtained does not affect whether it meets the definition of an asset at the present time. Although an observed transaction or other event might provide a signal that an asset might be present and provide a clue as to its nature, the failure to observe such a transaction or other event does not demonstrate that an asset is not present. Conversely, just because a transaction or other event has occurred, that does not mean an asset has resulted from it. For example, a cash outflow could have been incurred to settle a liability rather than to create an asset.
20. To avoid undue emphasis on seeking out a past transaction or event, the working definition focuses on what is necessary for an asset to exist ‘at the present’ (i.e., a *present* right or other privileged access to a *present* economic resource). This also has the advantage that the economic resource and access to it must exist today—so they cannot be an economic resource or access that will not arise until the future or that existed in the past, but no longer exist at the financial statement date.
21. *Contractual promises*—The amplifying texts accompanying the existing IASB and FASB definitions are not clear regarding the application of the definitions to contractual promises. The IASB Framework is silent on this matter. CON 6 suggests that contractual promises may be assets, but does not indicate which features might distinguish between those promises that are assets and those that are not.
22. The Boards have discussed inbound contractual promises and whether they qualify as assets in other projects such as Revenue Recognition and the project resulting in the issue of FASB Interpretation 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees*,

Including Indirect Guarantees of Indebtedness of Others. The Boards have observed that such promises may be:

- a) *Conditional*—Performance of the promise is subject to an event that is not certain to occur.
- b) *Unconditional*—Nothing other than the passage of time is necessary for performance of the promise to occur.
- c) *Mature*—Performance of the promise is not subject to any event, including the passage of time.

23. The Boards have concluded that inbound contractual promises that are conditional are not present economic resources because their performance is not presently required—performance is presently required only if and when the uncertain future event occurs.

However, inbound contractual promises that are unconditional and mature (that is, non-conditional) may qualify as present economic resources. In doing so, the Boards observed that conditional promises commonly are accompanied by an unconditional promise and, in those cases the unconditional contractual promise may be a present economic resource even though the conditional contractual promise is not a present economic resource.

24. For example, a fire insurance policy on a home may be seen as involving two promises from the insurance company. One is an unconditional promise to provide insurance coverage during the policy’s term, and the other is a conditional promise to pay damage claims *if* a fire occurs. Unless a fire occurs, the policyholder only has an asset relating to the unconditional promise of coverage for the remainder of the policy term. However, if a fire occurs, the policyholder has two assets, one for payment of the claim for fire damage, and another for coverage for the remainder of the policy term.

25. To be clear about whether inbound contractual promises may be assets, the Boards decided to explicitly indicate that economic resources encompass non-conditional promises (i.e., those that are unconditional or mature). The reason for doing so is to clearly communicate that non-conditional promises are economic resources.

26. The fire insurance example illustrates an unconditional promise that does not require the promisor or the insurance company to take a particular action, but rather to “stand ready” to do so. Specifically, the promise to provide insurance coverage for the policy term is a

contractual promise to stand ready. FASB Concepts Statement 6 acknowledges promises to stand ready to provide services, but only in the context of liabilities (paragraph 36). The IASB has also explored this idea in its project to amend IAS 37, Provisions, Contingent Liabilities and Contingent Assets. While such promises give rise to liabilities for their promisors, it also should be acknowledged that they give rise to assets for their promisees or the recipients of the promises.

Part 3—Working Draft of Text for Revised Conceptual Framework

Background

- A1. Elements are the most basic of the real-world economic phenomena that pertain to an entity. Financial reporting seeks to portray information about those elements. The financial position of an entity at a point in time is comprised of those elements that exist at that point in time—stocks. Other financial statements portray changes in those elements—flows.
- A2. Definitions of elements are an important first screen in determining the content of financial reports. An item's meeting the definition of an element is a necessary, but not a sufficient condition for recognising the item in an entity's financial report. To be included in a particular financial report, an item must not only meet the definition of an element, but also must meet criteria for recognition and measurement.⁷
- A3. All elements are defined in relation to a particular entity. An item that meets a definition of an element is a particular entity's asset, liability, etc.. Counter-parties to the entity are referred to as *others*, which include individuals, classes of individuals, business entities, not-for-profit entities, and the like. For example, employees, suppliers, customers or beneficiaries, lenders, shareholders, donors, and governments are all *others* to a particular entity. A subsidiary company that is part of the same entity as its parent company in consolidated financial statements is an "other" in the separate financial statements of its parent. Similarly, a parent company is an "other" in the subsidiary's individual financial statements.

⁷ Criteria for recognition and measurement will be considered later in this project.

Assets

- A4. An **asset** is a present economic resource to which the entity has a present right or other privileged access.
- a. *Present* means that both the economic resource and the right or other privileged access to it exist on the date of the financial statements.
 - b. An *economic resource* is something that has positive economic value. It is scarce and capable of being used to carry out economic activities such as production and exchange. It can contribute to producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources. Economic resources include non-conditional contractual promises that others make to the entity, such as promises to pay cash, deliver goods, or render services. Rendering services includes standing ready to perform or refraining from engaging in activities that the entity could otherwise undertake.
 - c. A *right or other privileged access* enables the entity to use the present economic resource directly or indirectly and precludes or limits its use by others. *Rights* are legally enforceable or enforceable by equivalent means (such as by a professional association). Other privileged access is not enforceable, but is otherwise protected by secrecy or other barriers to access.
- A5. For an entity to have an asset there must be a present economic resource and the entity must have a present right or other privileged access to that economic resource. The economic resource is a valuable thing. The right or other privileged access establishes that the entity is linked to that valuable thing. For example, an account receivable comprises a present promise from another party to pay cash (a valuable thing) and an entity's present contractual right to that promise (its link). An entity's physical asset comprises a present physical thing of value (a valuable thing) and a present ownership right to that thing (its link).

Present at the Financial Report Date

- A6. Financial reports are prepared as of a particular date. Users of financial reports are interested in assets that exist at that point in time. Therefore, the definition of an asset requires that it exist at the financial statement date. That is, the asset *presently* exists.
- A7. This means that the asset must have arisen from past transactions or other past events. Often an entity obtains assets by purchasing or producing them, but other transactions or events may give rise to assets. Examples include signing a contract with another party, discovering mineral deposits, and receiving land or buildings from a government as part of a program to encourage economic development in an area. The means of acquiring an asset does not affect whether something meets the definition of an asset (that is, the history of how the asset arose, or of how the entity obtained the asset, does not matter), although it might provide evidence to help in the assessment as to whether the entity has an asset and what is the nature of the asset.
- A8. Expected future transactions or other events are not assets today. An intention to purchase inventory does not meet the definition of an asset. Equipment that an entity plans to acquire next year does not make that equipment an asset today. Cash flows from sales expected to be made in the future are not assets today.
- A9. The corollary is that an entity has an asset if transactions or other events that ultimately transfer, use up, or destroy an entity's economic resource have not yet occurred. For example, a building is an entity's asset even if the entity has decided that it will sell, stop using, or demolish the building next year.
- A10. Both the economic resource and the entity's link to the economic resource must presently exist. If an economic resource no longer exists (for example, an entity's share certificate establishes rights to a residual interest in a company that has been dissolved), the entity no longer has an asset. Conversely, if an economic resource still exists, but access has been relinquished, then the entity no longer has an asset.

An Economic Resource

- A11. The definition of an asset requires that there be an economic resource—something that has positive economic value. An economic resource may be a physical thing or an intangible, including a contractual promise.
- A12. Something is of *value* when it is capable of being used to carry out activities such as production and exchange. Financial reporting concerns those things that have *economic value*—that is, those things that are capable of producing cash inflows to the entity or reducing cash outflows from the entity. Thus, something that is incapable of having value to others (for example, it has sentimental value only)—does not have *economic value*. Something that is available to all—that is, something that is not scarce—also does not have *economic value*.
- A13. Cash flows can be direct or indirect, and can arise from a single resource or from a combination of resources. As explained in paragraph OB20 of Chapter 1: *The Objective of Financial Reporting*:

Some of an entity's economic resources, such as accounts receivable or investments in debt instruments, are direct sources of future cash inflows.... However, many of the cash flows generated by an entity's operations result from combining several of its economic resources to produce or provide and market goods or services. Although those cash flows cannot be identified with individual economic resources..., investors and creditors need to know the nature and quantity of the resources available for use in an entity's operations....

As long as the probability of positive cash flows is greater than zero, there is positive economic value.

- A14. The most obvious evidence of an economic resource is that it has a market price (although the lack of a market price does not preclude an item from being an economic resource). Most things that are commonly bought and sold are economic resources, including not only the resources that a buyer obtains individually but also the resources a buyer obtains in a purchase of several items at the same time (often referred to as a “basket” purchase) or in a business combination. Similarly, most things that creditors commonly accept in settlement of liabilities are economic resources, and anything that is commonly used to produce goods

or services, whether it is tangible or intangible and whether it has a market price or is otherwise exchangeable, is also an economic resource.

A15. Economic resources also include things that are capable of reducing cash outflows from the entity. Even though something might not be saleable, if the entity would incur cash outflows to replace it, then the entity avoids those cash flows by having it. Hence, the item is an economic resource.

A16. In assessing whether something is capable of producing cash inflows, it is necessary to take into account cash outflows that are necessary to produce the cash inflows. Thus, if something is capable of being used only in a manner that produces cash inflows while simultaneously requiring equal or greater cash outflows, it is not an economic resource—and, therefore, it cannot be an asset.

A17. Economic resources include, among other things: inventory, plant, equipment, mineral deposits, patents, goodwill, cash, claims to cash, and ownership interests in other entities. The economic resource is the thing that is capable of producing cash inflows (or reducing cash out flows)—not the future cash flows themselves.

A18. An economic resource can result from contractual arrangements. In these circumstances, the economic resource is the non-conditional contractual promise that others make to the entity and which is capable of producing cash inflows or reducing cash outflows. Such economic resources include non-conditional promises by others to pay cash, deliver goods, or render services. Promises to render services include promises to stand ready to perform or to refrain from engaging in activities that the other party could otherwise undertake. Contracts generally involve exchanges of promises—one party promises to do something in exchange for a promise from another party to do something else in return.

A19. Contractual promises may be:

- a) *Conditional*—Performance of the promise is subject to an event that is not certain to occur.
- b) *Unconditional*—Nothing other than the passage of time is necessary for performance of the promise to occur.

- c) *Mature*—Performance of the promise is not subject to any event, including the passage of time.

A20. Inbound contractual promises that are conditional are not present economic resources because their performance is not *presently* required—performance is presently required only if and when the uncertain future event occurs. However, inbound contractual promises that are unconditional and mature (that is, non-conditional) may qualify as present economic resources. Conditional promises commonly are accompanied by an unconditional promise and, in those cases the unconditional contractual promise may be a present economic resource even though the conditional contractual promise is not a present economic resource.

A21. For example, a fire insurance policy on a home may be seen as involving two promises from the insurance company. One is an unconditional promise to provide insurance coverage during the policy's term, and the other is a conditional promise to pay damage claims *if* a fire occurs. Unless a fire occurs, the policyholder only has an asset relating to the unconditional promise of coverage for the remainder of the policy term. However, if a fire occurs, the policyholder has two assets, one for payment of the claim for fire damage, and another for coverage for the remainder of the policy term.

A22. A non-conditional contractual promise can be an economic resource only when the promise is made by others. That is, the promise must be a promise from another party for which the entity is the promisee and the other party is the promisor. Thus, an offer that the entity has made to others cannot be an economic resource because the entity is the promisor, not the promisee. Such an offer by the entity can only be an economic burden, not an economic resource, of the entity. Similarly, financial instruments that contain an entity's promise to others, such as the entity's own shares or debt, can only be economic burdens to the entity, not economic resources.

A23. Reacquired promises such as the promise of cash flows in an entity's own reacquired shares or debt, are not economic resources, since there is no party external to the entity as promisor—and for the added reason that the promises contained in these instruments are null and void because they presently lack promises. Hence, those instruments cannot be the

entity's assets, even though they were assets of the (external) shareholders or debtholders immediately prior to their reacquisition by the entity. For the same reasons, an entity's unissued shares or debt also cannot be its economic resources.

Rights or Other Privileged Access to an Economic Resource

- A24. The definition of an asset requires that the entity has rights or other privileged access to the economic resource. The assets that are useful for financial reporting purposes are those that are relevant to users' decisions about the entity. Therefore, the relevant economic resources are those *of the entity*. An entity establishes its ability to benefit from particular economic resources by having access to those resources. Access is what links economic resources with the entity.
- A25. Access that gives an entity no advantage beyond the common advantages of others because it is available to all does not result in an asset. Access by others must also be denied or limited. Having a public road outside an entity's property might seem like an asset of that entity. However, as long as there are no restrictions as to who can drive on that road (i.e., who can access the road), access to it is not an asset of the entity (although the proximity of the road might add value to the entity's property).
- A26. Rights are the most common mechanism that society uses as a way to distinguish who has access to specific resources and to facilitate exchanges of resources. An economic resource might become associated with other parties if the original rights holder relinquishes its rights in favour of another party, which now has rights to that economic resource. For example, when inventory is sold, the seller relinquishes its rights to the inventory and the buyer obtains rights to the inventory. The other party, the buyer, now has access to the economic resource. The economic resource itself might not have changed.
- A27. An entity's association with economic resources can be represented by property rights (such as the right to possess, use, and enjoy a parcel of land), in which case there is no corresponding obligation of another party. However, for other rights, such as contractual rights, another party must have a corresponding obligation and, thus, a liability.

- A28. Legally enforceable rights include, among other rights, property rights, contractual rights and statutory rights. Examples of legally enforceable rights to economic resources include the right to require other parties to make payments or render services and the right to use something that has been patented or a trademark.
- A29. Rights may be single (held solely by the entity) or shared (held in conjunction with others). Two or more entities can have different rights to economic resources arising from the same thing at the same time. For example, a lease arrangement might give the lessee the right to an economic resource in the form of use of a property and the lessor the right to an economic resource in the form of rental receipts. Two or more entities also can have rights to the same economic resource at different times. For example, time-share property owners have the right to an economic resource in the form of use of a property during specified time periods. Each entity has an asset based on the rights that it has.
- A30. Two or more entities can have an interest held under the same title in a single economic resource, such as a parcel of land or mineral deposit. Each has a right to cash inflows or a reduction in cash outflows deriving from that interest that would qualify as an asset, even though the right of each is subject at least to some extent to the rights of the other entity (or entities).
- A31. Rights can be enforceable by other external means that are equivalent to legal enforcement, such as those arising within a self-regulatory structure such as a professional organization. An example is the right to practice as an accountant conferred on a qualified individual or firm by a professional accounting organization. If such rights are enforced similarly to how rights would be legally enforced (even though the consequences of enforcement might differ somewhat), they are regarded as the equivalent of legally enforceable rights.
- A32. An entity also can produce cash inflows or reduce cash outflows in the absence of legally enforceable rights. For example, an entity might have no legally enforceable right to secret know-how, or an unpatented invention, but can use or sell the knowledge or invention (to produce cash inflows) and access to it by others is precluded or limited—that is, there are barriers to access. Therefore, the ability to access an item when others' access is precluded or

limited also creates an asset of the entity in that it creates an advantage beyond the common advantages of others (that is, privileged access).

A33. No asset can simultaneously be an asset of more than one entity. The entity having rights or other privileged access to an economic resource is the one that can: (a) relinquish those rights or permit access, (b) use the resource to produce goods or services or reduce other expenditures, (c) exact a price for others' use of the economic resource, (d) transfer the economic resource in settlement of liabilities, or (e) distribute the economic resource to its owners.

A34. Economic benefits from an economic resource must accrue to the entity. For example, an asset does not include an economic resource that the entity has possession of, but only produces cash inflows or a reduction in cash outflows that accrue to another entity. For example, an entity that is acting in a fiduciary capacity, as a trustee, does not benefit from economic resources that it holds in that capacity other than, perhaps, to extract a fee for services provided.

The Relationship between Rights and Control

A35. Control refers to the ability to direct, manage, or have power over something so as to obtain or access benefits, or to increase, maintain or protect those benefits (benefits that have the capacity to give rise to cash inflows). Control may be exercised directly or it may be exercised indirectly through one or more intermediaries. For example, an entity has direct control of its own activities and resources, such as its own land, buildings, plant and machinery etc., and shares representing its investment in a subsidiary company. They are the entity's assets. Through the investment in the subsidiary company, the entity also may indirectly control assets directly controlled by the subsidiary company. However, the entity does not directly control the assets of the subsidiary company. They are not its assets, even though accountants might describe those assets as being *controlled* by the entity. Those assets are assets of the subsidiary as a legal entity and also are viewed as the assets of the consolidated (group) entity comprising both the parent and the subsidiary.

- A36. Rights (or other privileged access) better expresses the association of the entity to the economic resource, without having to differentiate between direct and indirect control. The entity has rights to the shares representing its investment in the subsidiary company, from which it can produce cash inflows. The entity's access to cash inflows is by way of its rights to the shares representing its investment in the subsidiary company. The entity does not have rights or other privileged access to the underlying assets of the subsidiary company.
- A37. Similarly, an entity (the purchaser) might enter into a contract whereby it agrees to purchase a building at a future date. In this example, the purchaser has the rights to any price appreciation on the building, but does not have rights to the building itself, or to the management of the building, until the date of ownership change—the entity does not *control* the building, but it does have rights to any price appreciation.
- A38. An entity might also have rights (or other privileged access) to something, aspects of which are outside its control. For example, an entity might have present access to the skills of an assembled workforce or to information about existing customers useful in marketing new products to those customers. In each of these cases, the entity does not presently control the workers or the customers. However, the entity presently can access to the skills of the workforce and the information about the customers. The relevant economic resources in these instances are the skills of the workforce and the information about the customers, respectively.
- A39. Another party's restriction that also happens to benefit the entity is not an asset of the entity unless the entity can direct, manage, or have power over the restriction. For example, an agreement entered into between team A and one of its players that precludes team A from trading the player to team B (a no-trade clause) might be considered an asset of team C if team C competes against team B and would prefer that the player not be traded to team B. However, team C has no right to that economic resource (the restriction) because it does not direct, manage, or have power over the restriction.⁸ Hence, team C does not have an asset as defined.

⁸ Team C is, however, a beneficiary of that restriction.

Part 4—Questions

Overall questions

Question 1: *Do you agree that the working definition of an asset overcomes shortcomings in the existing definitions, and thus, is an improvement? If not, what aspects do you think are not an improvement and what changes would you make to the working definition?*

Question 2: *Do you agree that the working definition of an asset communicates more clearly and facilitates a more disciplined analysis than the existing definitions? If not, what changes would you make?*

Specific questions

Certain aspects of the working definition have been of particular concern in Boards' deliberations and in prior consultations. We would appreciate your views on the following specific questions.

Question 3: *Some have suggested that it is unnecessary to refer to “present” twice in the first sentence of the definition. Paragraph A10 of the working draft amplifying text explains that both the economic resource and the right or other privileged access must be present. Do you think that “present” should be referred to twice in the first sentence of the definition? If not, why not and which would you remove?*

Question 4: *The Boards have sought to balance the need for prominence of key aspects of the definition with length, bearing in mind the need to communicate and educate key new concepts. Thus, the Boards propose that all of the text within the box in paragraph 7 be considered part of the definition. In order to educate, the Boards have erred on the side of including more, rather than less, material within the boxed text for now, although this probably could be streamlined later. Have the Boards struck the right balance as to what should be considered essential components of the definition? If not, what would you change?*

Question 5: *Perhaps the most difficult part of the working definition has been to explain the notion that links the entity to the economic resource—rights or other privileged access. We think that it is insufficient to refer only to “rights”—particularly in jurisdictions where rights might*

not be established in as formal a manner as they are in countries such as the UK or US, for example. We have attempted to deal with this by adding reference to other forms of “privileged access.” We are particularly interested in your suggestions as to how this notion might better be expressed, as well as examples as to when “rights” would not be sufficient to establish the linkage between the entity and the economic resource.

Question 6: When enforceability is important, questions arise as to how much enforceability is necessary in order that access be enforceable by “equivalent means” to legal enforcement? We are interested in your suggestions as to how this notion might be better expressed, as well as examples as to when rights would and would not be enforceable by equivalent means to legal enforcement.

What would be included as an asset? Would that differ from today?

Some have expressed concerns that the working definition of an asset might include or exclude things that they think should not be included or excluded.

Question 7: Do you think that the working definition would exclude things that should be assets? If so, what would be excluded, why do you think that the definition excludes it, and why should it be included?

Question 8: Do you think that the working definition would include things that should not be assets? If so, what would be included, why do you think that the definition includes it, and why should it be excluded?

Other suggestions

Question 9: Do you have other suggestions as to how the working definition of an asset, or the working draft of amplifying text in Part 3 of this paper, should be amended or improved? If so, please explain your proposed changes or clarifications.

Thank you for your time and effort in assisting us with developing a robust definition of an asset. Your contributions are much appreciated.

APPENDIX A

Existing Asset Definitions

IASB	An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. (paragraph 49)
FASB	Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. (paragraph 25)
Australia	" Assets " 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	Assets 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 asset is a resource controlled by an enterprise as a result of past events. (paragraph 66)
Japan	Assets are economic resources or their equivalents that the reporting entity controls as a result of past transactions or events. (paragraph 4)
New Zealand	Assets 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	Assets 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 ⁹	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"> 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; b. The right to the future benefit is controlled by the company; c. There is a nonzero probability that the benefit will occur; d. The right to the future benefit is separable from the company; that is, it can be transferred to an external party; e. The right to the future benefit is the result of past events; and f. The fair value of the right to future benefits can be measured. (page 19)
FASAB ¹⁰	An asset is a resource that embodies economic benefits or services that the federal government can control. (paragraph 17)
GASB ¹¹	Assets are resources that the entity presently controls.

⁹ *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.

¹⁰ Federal Accounting Standards Advisory Board, July 2006 Exposure Draft, *Proposed Statement of Federal Financial Accounting Concepts: Definition and Recognition of Elements of Accrual-Basis Financial Statements*.

¹¹ Governmental Accounting Standards Board, August 2006 Exposure Draft, *Proposed Statement of Governmental Accounting Standards Board on concepts related to Elements of Financial Statements*.

APPENDIX B

Draft Definition of a Liability

The following draft definition of a liability is included for reference purposes only. The definition of a liability is included solely to demonstrate that it is possible to draft a definition that is parallel to the asset definition. The Boards have not yet discussed this draft definition of a liability, and we are not requesting comments on it.

A **liability** is a present economic burden for which the entity has a present obligation.

- a. *Present* means that both the economic burden and the obligation exist on the date of the financial statements.
- b. An *economic burden* is something that has negative economic value. It is capable of requiring the sacrifice of economic resources. An economic burden can require cash outflows or reduce cash inflows, directly or indirectly, alone or together with other economic burdens. Economic burdens include non-conditional contractual promises that the entity makes to others, such as promises to pay cash, deliver goods, or render services. Rendering services includes standing ready to perform or refraining from engaging in activities that the entity could otherwise undertake.
- c. An *obligation* requires the entity to bear the present economic burden directly or indirectly. Obligations are legally enforceable or enforceable by equivalent means (such as by a professional association).

Note that, in parallel with the asset definition, the liability definition focuses on the *capability* of requiring cash outflows (or reducing cash inflows), rather than on the cash flows themselves that might result.

Note also that the liability definition does not completely parallel the asset definition because not all assets give rise to corresponding liabilities. For example, those economic resources (such as a secret formula) to which an entity has other privileged access rather than a right do not result in assets that have liability counterparts. Moreover, even though “obligation” in the liability definition may be seen as the counterpart to “right” in the

asset definition, it does not fully mirror that term because rights include property rights for which there is no corresponding obligation.

Proposed Working Definition of an Asset

An **asset** is a present economic resource to which the entity has a present right or other privileged access.

- a. *Present* means that both the economic resource and the right or other privileged access to it exist on the date of the financial statements.
- b. An *economic resource* is something that has positive economic value. It is scarce and capable of being used to carry out economic activities such as production and exchange. It can contribute to producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources. Economic resources include non-conditional contractual promises that others make to the entity, such as promises to pay cash, deliver goods, or render services. Rendering services includes standing ready to perform or refraining from engaging in activities that the entity could otherwise undertake.
- c. A *right or other privileged access* enables the entity to use the present economic resource directly or indirectly and precludes or limits its use by others. *Rights* are legally enforceable or enforceable by equivalent means (such as by a professional association). Other privileged access is not enforceable, but is otherwise protected by secrecy or other barriers to access.