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**International  
Accounting Standards  
Board**

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

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

## **INFORMATION FOR OBSERVERS**

**IASB Meeting:** 16 October 2007, London

**Project:** Conceptual Framework

**Subject:** Phase B: Elements and Recognition –  
Asset Definition Examples (Agenda Paper 16B)

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### **Introduction**

1. This paper applies the working definition of an asset, 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 an asset, as well as the proposed working definition of an asset are on the last page of this paper so that they can be detached for reference purposes.
3. A number of these situations were included in the July 2006 Board paper. Others have been drawn from those used at the December 31, 2006 FASB-AAA Conference and from situations discussed during Board deliberations on this and other active projects.

4. The first few examples establish that those items that one would clearly expect to be assets do, indeed, meet the definition of an asset. They also demonstrate aspects where we think that the proposed working definition 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 working definition of an asset. We also provide a few examples of items that do not meet the proposed working definition of an asset.
5. In light of the analysis in IASB Agenda Paper 16C, FASB Memorandum 66C, we have avoided referring to the term *other privileged access* in this paper. Rather, we have referred to the linkage between the entity and the economic resource.
6. 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, at times, repetitive, we have tried to be as complete as possible in the analysis of each example.
7. 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

Asset	Proposed Working Definition	IASB Definition	FASB Definition
<b>Ex1. Cash on hand</b>	<p><i>Economic resource:</i> Cash itself that provides an entity with the ability to obtain other economic resources that can result in cash inflows or can result in additional cash through investment, e.g., earn interest.</p> <p><i>Linkage to the entity:</i> Established by physical possession, being the ‘bearer’ and safeguarding physical access to it.</p> <p><i>Both presently exist:</i> Economic resource is observable.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b> [Sentence omitted from Observer Notes]</p> <p><i>Focus on resource rather than probable future economic benefits:</i> We think it clearer to focus on the resource as the asset, rather than on the probable future economic benefits.</p> <p><i>Present economic resource rather than past event:</i> We think it clearer, and more direct, to focus on whether the entity presently has the cash, rather than on where the cash came from.</p>			
<p><b>Ex1A. Cash in bank and other deposits</b> (Does the depositor have an asset?)</p>	<p><i>Economic resource:</i> Contractual unconditional<sup>1</sup> promise by bank to pay cash upon demand, or otherwise use the promise (for example, as security). The entity can obtain the cash and exchange it to obtain other economic resources that can result in cash inflows or can result in additional cash through investment, e.g., earn interest.</p> <p><i>Linkage to the entity:</i> Established by contractual right of the entity to withdraw it from deposit-taking institution, to use the cash as security or to earn interest.</p> <p><i>Both presently exist:</i> Economic resource and rights are set out in contract with deposit-taking institution.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b> The difference between cash in hand and cash in a deposit-taking institution is that the linkage to the entity is established by contract and not by physical access. [Sentence omitted from Observer Notes]</p>			

<sup>1</sup> The term “unconditional” is being used to replace “non-conditional” to describe “mature” promises for which performance is due.

Asset	Proposed Working Definition	IASB Definition	FASB Definition
<b>Ex2. Account receivable</b> (that is collectable)	<p><i>Economic resource:</i> Unconditional promise (usually contractual) by another party to pay cash, which will result in collection of cash, or cash from sale of the account receivable.</p> <p><i>Linkage to the entity:</i> Established by contractual right identifying the entity as the beneficiary.</p> <p><i>Both presently exist:</i> Economic resource and rights are set out in contract, e.g. written or oral.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b> [Sentence omitted from Observer Notes]</p> <p>Some question whether accounts receivable that might not be collectable meet the definition of an economic resource in the proposed working definition or give rise to expected/probable economic benefits in the IASB and FASB definitions. We think that how collectable is an accounts receivable is a feature of the asset that should be considered when measuring the asset. To meet the asset definitions, an accounts receivable must have some capability of cash inflows.</p> <p><i>Focus on resource rather than probable future economic benefits:</i> We think that it is clearer to focus on the <i>promise</i> of future cash inflows, rather than looking to the future cash flows themselves.</p> <p><i>Present economic resource rather than past event:</i> We think it clearer, and more direct, to focus on whether the entity presently has the account receivable, rather than on where the account receivable came from.</p> <p><i>Note:</i> An analysis similar to that for the accounts receivable applies to other types of contracts that promise to pay cash in the future, such as a loan commitment for the potential borrower. In the case of a loan commitment, consideration should also be given to corresponding liabilities also arising from the contact and whether these items should be considered separately or together. This latter issue will be considered as part of the unit of account later in Phase B.</p>			
<b>Ex2A. Portfolio of accounts receivable</b> (that are collectable)	Analysis is no different from Example 2, above.		
<p><b>Comments:</b> The additional consideration with a portfolio is whether there might be an additional asset, representing the “package” of having accumulated a portfolio of promises with diversified risks. Certainly, that package is an economic resource, in that if the portfolio as a whole were to be sold, the price paid for the package would exceed the price that would be paid if each individual account was sold. A portion of the proceeds received by the entity for the portfolio would represent that paid for the packaging. That package is also one to which the entity has access, to the exclusion of others (another entity might replicate the portfolio, but does not have access to the specific entity’s portfolio). Also, both the package and the linkage to the entity presently exist. Thus, in accordance with the proposed working definition, we think that a “packaging asset” exists. A question that remains unanswered is whether the “packaging asset” exists separately from the promises and enforceable rights under the individual accounts</p>			

Asset	Proposed Working Definition	IASB Definition	FASB Definition
receivable. That remains to be considered as a “unit of account” question. [Sentence omitted from Observer Notes]			
<b>Ex3. Prepayment for goods or services</b> (e.g., prepaid advertising)	<p><i>Economic resource:</i> Unconditional promise from another party to provide a good or service from which the entity can derive future cash inflows, and in some circumstances, promise of the return of cash if the promise is not performed or sale of the promise for cash.</p> <p><i>Linkage to the entity:</i> Established by contractual or other enforceable right, identifying the entity as the beneficiary.</p> <p><i>Both presently exist:</i> Economic resource and rights are set out in contract, e.g. written or verbal.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b> [Sentence omitted from Observer Notes]</p> <p><i>Focus on resource rather than probable future economic benefits:</i> We think that it is clearer, and more direct, to focus on the <i>promise</i> of future goods or services that is capable of producing cash inflows as being the economic resource, rather than looking to the future goods or services themselves.</p> <p><i>Present economic resource rather than past event:</i> We think it clearer, and more direct, to focus on whether the entity presently has a contract rather than on when the contract was entered into. If a valuable good or service has been partially delivered in return for the prepayment, that good or the intangible arising from the service becomes the asset. For example, if prepaid advertising has been partially delivered, the entity might conclude that it has received valuable benefits from the advertising that exceed the cash prepaid and has, thus, developed a new, intangible asset, such as brand recognition or an enhanced customer relationship.</p>			

Asset	Proposed Working Definition	IASB Definition	FASB Definition
<b>Ex4. Raw material inventory, Plant and machinery, Freehold interest in land</b>	<p><i>Economic resource:</i> The tangible thing/freehold interest that can be consumed or used in combination with other resources to produce goods for sale or provide services, or separately sold, each of which can result in future cash inflows.</p> <p><i>Linkage to the entity:</i> Established by ownership rights (often set out in documentation) identifying the entity as the owner.</p> <p><i>Both presently exist:</i> Economic resource is observable and rights are set out in ownership documentation or by valid physical possession.<sup>2</sup></p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b> [Sentence omitted from Observer Notes]</p> <p><i>Focus on resource rather than probable future economic benefits:</i> We think it clearer and more direct to focus on the economic resource, than to the benefits arising from the economic resource.</p> <p><i>Present economic resource rather than past event:</i> We think it clearer, and more direct, to focus on whether the entity presently has the raw material, plant and machinery or freehold interest in land, rather than on how it obtained it.</p> <p><i>Note:</i> This example identifies generic items [Phrase omitted from Observer Notes]. In identifying what an item is, care needs to be taken to describe the attributes or special features of the item. Such an understanding is necessary in order to ascertain where the asset begins and ends, and to value the item or items. Determining the boundary of the asset or what it is involves also ascertaining the unit of account. Factors that might assist in ascertaining the unit of account include whether the item is separable, how it is used in operations and the information needs of users. For example, a property located next to water may enable an entity to take water from it for use or sale. These items might enhance the value of the property or be indicative of separate assets. These unit of account issues will be considered later in Phase B. Note that the water itself is not an asset of the entity, since it does not have rights, to the exclusion of others, to it.</p>			

<sup>2</sup> Inventory held on consignment would not meet the definition of an asset, because the entity has no “present” right to that inventory.

Asset	Proposed Working Definition	IASB Definition	FASB Definition
<p><b>Ex5. Property lease</b> (Does the lessee have an asset?)</p>	<p><i>Economic resource:</i> Unconditional promise from another party to allow use of the property for a specified future period. The property provides a facility that can be used to produce goods for sale or provide services from, or can be leased to another, each of which can result in future cash inflows.</p> <p><i>Linkage to the entity:</i> Established by contractual right identifying the entity as beneficiary.</p> <p><i>Both presently exist:</i> Economic resource and rights are set out in contract.</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><i>Focus on resource rather than probable future economic benefits:</i> We think that it is clearer, and more direct, to focus on the <i>promise</i> to use the property for a future period that is capable of resulting in future cash inflows as being the economic resource, rather than to the benefits arising from the economic resource.</p> <p><i>Present economic resource rather than past event:</i> We think it clearer, and more direct, to focus on whether the entity presently has a contract rather than on when the contract was entered into.</p>			
<p><b>Ex6. Warranty held on machinery</b></p>	<p><i>Economic resource:</i> Unconditional promise from another party to provide coverage to restore the machinery to a functioning state if the machinery should fail. The promissor is standing ready to act so that the machinery can produce goods or provide services for sale that results in future cash inflows, or otherwise compensate the entity for loss. Restoration of the machinery can reduce cash outflows that might otherwise be incurred from potential repairs and downtime in production or provision of services (e.g., wages paid) when machinery could not be used.</p> <p><i>Linkage to the entity:</i> Established by a contractual right identifying the entity as the beneficiary.</p> <p><i>Both presently exist:</i> Economic resource and rights are set out in contract or other agreement, e.g., written or verbal.</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>			



Asset	Proposed Working Definition	IASB Definition	FASB Definition
<p><i>Focus on resource rather than probable future economic benefits:</i> We think it clearer, and more direct, to focus on the unconditional promise of warranty coverage (i.e., the resource, rather than the economic benefits) that is capable of producing cash inflows or reducing net cash outflows.</p> <p><i>Present economic resource rather than past event:</i> We think it clearer, and more direct, to focus on whether the entity presently has a valid outstanding contract rather than on when the contract was entered into.</p>			
<p><b>Ex7. Drilling rights for oil</b></p>	<p><i>Economic resource:</i> Unconditional promise by another party allowing drilling and extraction of oil in a specified location. The promise could be used to drill for oil in order to produce cash inflows, or it could be sold.</p> <p><i>Linkage to the entity:</i> Established by contractual right identifying the entity as the beneficiary.</p> <p><i>Both presently exist:</i> Economic resource and rights are set out in contract.</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>
<p><b>Comments:</b></p> <p><i>Likelihood:</i> [Sentence omitted from Observer Notes] we think it clearer to focus on the capability of the economic resource producing cash inflows. [Sentence omitted from Observer Notes]</p> <p><i>Focus on resource rather than probable future economic benefits:</i> We think that it is clearer to focus on the entity's economic resource—the promise—rather than on future economic benefits.</p> <p><i>Present economic resource rather than past event:</i> We think it clearer to focus on the present existence of an economic resource, rather than on where the economic resource came from.</p>			
<p><b>Ex8. Proven oil reserves</b> (located at a depth deeper than what can be reached by current technology)</p>	<p><i>Economic resource:</i> The oil that is capable of being refined for sale, or sold to another mining company, each of which is capable of producing cash inflows in the future.</p> <p><i>Linkage to the entity:</i> Established by rights identifying the entity as having the rights to the staked or identified reserve.</p> <p><i>Both presently exist:</i> Economic resource as demonstrated by geological analysis and the rights are set out in valid documentation.</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>

Asset	Proposed Working Definition	IASB Definition	FASB Definition
<p><b>Comments:</b></p> <p><i>Likelihood:</i> [Sentences omitted from Observer Notes.] We think it is clearer to focus on the capability of the economic resource producing cash inflows sometime in the future. Thus, the technical and economic feasibility of extracting the oil need not yet exist. The resource must, merely, be capable of producing economic benefits. Alternatively, the ability to sell the knowledge of the oil reserve for cash would be sufficient to demonstrate the capability of the oil reserve to generate future cash flows. [Sentence omitted from Observer Notes] While the measurement of this asset might be very small, we think that an asset exists.</p> <p><i>Focus on resource rather than probable future economic benefits:</i> We think that it is clearer to focus on the entity's economic resource—the oil reserve—rather than on future economic benefits.</p> <p><i>Present economic resource rather than past event:</i> We think it clearer to focus on the present existence of an economic resource, rather than on when the economic resource was found.</p>			
<p><b>Ex9. Non-patented invention</b></p>	<p><i>Economic resource:</i> The invention that can be: (a) used to produce new goods or provide new services for sale; (b) used to improve efficiency of production or provision of services thereby reducing costs; or (c) separately sold, each of which can result in future cash inflows.</p> <p><i>Linkage to the entity:</i> Established because only the entity has knowledge of the “idea,” and ability to restrict others’ knowledge of or access to the idea.</p> <p><i>Both presently exist:</i> Demonstrable present knowledge of the “idea”, e.g., formula or product design and others’ access is presently restricted (e.g., the formula is known only to key employees).</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>
<p><b>Comments:</b></p> <p><i>Focus on resource rather than probable future economic benefits:</i> We think it clearer to focus on the idea (the economic resource), rather than on probable future economic benefits.</p> <p><i>Control:</i> If we focus on the idea (the economic resource) it is clearer that the entity can control that—it can decide what to do with it—rather than if we focus on the probable future economic benefits—the occurrence of which the entity has less ability to control. The entity can only control whether it will get benefits if they occur—whereas the economic resource is capable of producing cash inflows. Also, we think that it is clearer to explain that the entity needs to be able to restrict others’ access to the idea, rather than solely to rely on the word <i>control</i>.</p> <p><i>Present economic resource rather than past event:</i> We think it is clearer to focus on the fact that the entity has the invention, rather than trying to determine when the invention was developed.</p>			

Asset	Proposed Working Definition	IASB Definition	FASB Definition
<b>Ex10. Loan guarantee held</b>	<p><i>Economic resource:</i> Unconditional promise by another party to provide guarantee coverage by standing ready to pay cash for amounts not paid by the borrowing party, which compensates for cash shortfalls that would otherwise occur, or potentially from receiving cash inflows from the sale of, or negotiated release from, the guarantee.</p> <p><i>Linkage to the entity:</i> Established by contractual right identifying the entity as the beneficiary.</p> <p><i>Both presently exist:</i> Economic resource and rights are set out in contract, e.g. written or verbal.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b></p> <p><i>Likelihood:</i> Some [Phrases omitted from Observer Notes.] misapply the words <i>expected/probable</i> [...] elimination of these terms from the proposed working definition makes [it] clearer.</p> <p><i>Focus on resource rather than probable future economic benefits:</i> We think it is clearer, and more direct, to focus on the <i>promise</i> as being the economic resource, rather than looking to the future cash flows.</p> <p><i>Present economic resource rather than past event:</i> We think it is clearer, and more direct, to focus on whether the entity presently has the contract rather than on when the contract was entered into.</p>			

Asset	Proposed Working Definition	IASB Definition	FASB Definition
<b>Ex11. Assembled work force</b>	<p><i>Economic resource:</i> Organized and trained personnel (including, for example, established policies and procedures, and a human resources expertise to hire and maintain the workforce), which enables work to be performed in an efficient manner to produce goods for sale or provide services, or which may be sold in combination with other assets, each of which can result in future cash inflows in addition to the cash inflows that could be obtained from the individual assets.</p> <p><i>Linkage to the entity:</i> Established by the entity's access to the package, which is not presently accessible by other parties.</p> <p><i>Both presently exist:</i> Organized and trained personnel and entity's access to them are observable.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b></p> <p><i>Control:</i> [Phrases omitted from Observer Notes]the asset is the organized and trained personnel, which the entity controls; not the skills of the employees, which it does not control.</p> <p><i>Focus on resource rather than probable future economic benefits:</i> We think it is clearer to focus on the organized and trained personnel themselves, rather than the cash flows that might arise from those skills.</p> <p><i>Present economic resource rather than past event:</i> We think it is clearer, and more direct, to focus on whether the organized and trained personnel exist, rather than on where they came from—they might have been built up over a long period of time.</p>			
<b>Ex12. Internally-developed list of customers</b>	<p><i>Economic resource:</i> Internally-developed list of customers who are likely to purchase goods or services from the entity and can be sent advertisements to encourage the sale of goods and services, or the list could be separately sold, each of which is capable of resulting in future cash inflows.</p> <p><i>Linkage to the entity:</i> Established by physical possession or the ability of the entity to restrict access to the list.</p> <p><i>Both presently exist:</i> Economic resource and ownership or ability to restrict others' access are observable.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]

Asset	Proposed Working Definition	IASB Definition	FASB Definition
<p><b>Comments:</b></p> <p><i>Control:</i> [Phrases omitted from Observer Notes] it is clear that the list is controlled. Also, we think it clearer to focus on the access of the entity to the list, which is capable of producing cash inflows, rather than on control of future economic benefits.</p> <p><i>Focus on resource rather than probable future economic benefits:</i> We think it is clearer to focus on the list, rather than the cash flows that might arise from using the list.</p> <p><i>Present economic resource rather than past event:</i> In accordance with the existing definitions, it is more difficult to identify the past event that creates the list. We think that it is clearer, and more direct, to focus on whether the list presently exists, rather than where it came from.</p>			
<p><b>Ex13. Established customer relationships</b></p>	<p><i>Economic resource:</i> Knowledge of information about customers and customers' familiarity with the entity that can be used to sell additional goods or services that can result in future cash inflows or reduced cash outflows from not having to establish those relationships.</p> <p><i>Linkage to the entity:</i> Entity's possession of and access to the knowledge or familiarity that others do not have.</p> <p><i>Both presently exist:</i> Economic resource and access, to the exclusion of others, are observable.</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>
<p><b>Comments:</b></p> <p><i>Control:</i> [Sentence omitted from Observer Notes] (Note: customer/depositor relationships are considered assets in a business combination.) Some think that there is no control, since any other party can also access those customers and the entity cannot control whether it can get future economic benefits. However, we think that there is control of the knowledge, from which cash inflows are capable of being produced by the entity, even though there is no control of whether there will be any cash flows.</p> <p><i>Focus on resource rather than probable future economic benefits:</i> We think that it is clearer to focus on the need for <i>access</i> to the knowledge (the economic resource), rather than <i>control</i> of whether future economic benefits arise.</p> <p><i>Likelihood:</i> Also, we think that it is clearer to remove reference to <i>expected/probable</i>, since those terms can be mis-used to argue that future economic benefits are not sufficiently certain to flow to the entity.</p> <p><i>Present economic resource rather than past event:</i> We think it clearer to focus on whether the customer relationship presently exists, rather than to determine where it came from.</p> <p><i>Note:</i> An analysis similar to the above established customer relationship applies to other types of customer intangibles, such as a "core deposit intangible."</p>			

Asset	Proposed Working Definition	IASB Definition	FASB Definition
<p><b>Ex14. Contractual right to future music revenues from the sale of copies of existing recordings –</b> (Does the rights holder have an asset?)</p> <p>(Ownership rights to music and recordings are retained by recording artist.)</p>	<p><i>Economic resource:</i> Unconditional promise of any revenues from the sale of copies of the existing recordings or from sale of the promise, each of which can produce cash inflows .</p> <p><i>Linkage to the entity:</i> Established by contractual right identifying the entity as the beneficiary.</p> <p><i>Both presently exist:</i> Economic resource and rights are set out in contract.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b></p> <p><i>Likelihood:</i> [Sentence omitted from Observer Notes] We think it clearer to eliminate the consideration of likelihood.</p> <p><i>Focus on resource rather than probable future economic benefits:</i> We think it clearer to focus on the promise as the thing that must be controlled and that is capable of producing future benefits, rather than the future economic benefits.</p> <p><i>Control:</i> [Phrases omitted from Observer Notes] the contract is controlled, which is capable of producing cash inflows.</p> <p><i>Present economic resource rather than past event:</i> We think it clearer to focus on the existence of a present economic resource, rather than seeking to identify the past event creating that resource.</p> <p>[Phrase omitted from Observer Notes], this might be an example that is difficult to measure.</p>			

Asset	Proposed Working Definition	IASB Definition	FASB Definition
<p><b>Ex14A.</b>  <b>Contractual right to future music revenues from the sale of copies of future recordings</b>            (Does the rights holder have an asset?)</p> <p>(Ownership rights to music and recordings to be created will be retained by recording artist.)</p>	<p>Analysis is no different from Example 12 above, except that the reference to “existing” recordings should be replaced with “future” recordings.</p>		
<p><b>Comments:</b></p> <p><i>Likelihood:</i> In accordance with the existing definitions, many become even more concerned about the likelihood of future economic benefits in this example than in the previous example.</p> <p><i>Focus on resource rather than probable future economic benefits:</i> By focusing on the contractual promise we think it is clearer that an asset exists. [Phrase omitted from Observer Notes], it is less clear that the entity can control probable future economic benefits—for example, the entity might not be able to control whether any future recordings are made. We think that is the wrong focus and that it is clearer to focus on there being an asset when there is a contractual promise and a capability that there will be economic benefits from that promise.</p> <p><i>Present economic resource rather than past event:</i> We think it clearer to focus on the existence of a present economic resource, rather than seeking to identify the past event creating that resource. In this situation, that helps to direct one more clearly towards the contract, rather than the future revenues and recordings.</p>			

Asset	Proposed Working Definition	IASB Definition	FASB Definition
<b>Ex15. Non-compete agreement</b>	<p><i>Economic resource:</i> Unconditional promise from other party not to conduct a specified business or activity that can result in enhanced opportunity to sell more products or provide more services to larger number of customers that can increase future cash inflows, or to collect cash damages from other party if it breaches the non-compete agreement.</p> <p><i>Linkage to the entity:</i> Established by contract identifying the entity as the beneficiary.</p> <p><i>Both presently exist:</i> Economic resource and rights are set out in the contract, e.g. written or verbal.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b></p> <p><i>Control:</i> [Sentence omitted from Observer Notes]</p> <p><i>Focus on resource rather than probable future economic benefits:</i> We think [Phrase omitted from Observer Notes] we should focus on the right to <i>any</i> future economic benefits that may arise—including those from the other party not conducting the specified business or activity. Therefore, we think it is clearer to focus on the right to the promise that is capable of producing future economic benefits, rather than on probable future economic benefits.</p> <p><i>Likelihood:</i> We think it clearer to remove references to likelihood, to avoid an interpretation that when future economic benefits are insufficiently likely there is no asset—as long as the resource is capable of producing economic benefits we think that an asset exists.</p> <p><i>Present economic resource rather than past event:</i> We think it clearer to focus on the existence of a present economic resource, rather than seeking to identify the past event creating that resource.</p>			



Asset	Proposed Working Definition	IASB Definition	FASB Definition
<b>Ex16. Goodwill</b>	<p><i>Economic resource:</i> Synergies resulting from having an assembled and operating business, represented by the excess of the value of the assembled going concern operation over the residual assets and liabilities. In combination with other resources, goodwill can contribute to the production and sale of goods or provide services, or can be sold in combination with other assets, each of which can result in future cash inflows.</p> <p><i>Linkage to the entity:</i> Established by ownership rights to the business.</p> <p><i>Both presently exist:</i> Synergies observable from physical observation and financial position and ownership rights set out in the contract.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b></p> <p><i>Focus on resource rather than probable future economic benefits:</i> We think that it is clearer to focus on the synergies (an economic resource) than on probable future economic benefits.</p> <p><i>Present economic resource rather than past event:</i> We think that it is clearer to focus on the existence of synergies at the balance sheet date, rather than identifying where those synergies came from (in particular for internally generated goodwill).</p> <p><i>Control:</i> Also, we think it clearer to focus on the entity's ownership rights to the business to establish its link to the goodwill, rather than on control, since, in accordance with the existing definitions, some argue that the entity does not control the synergies themselves—that can be altered or destroyed by events external to the entity—or whether there will be probable future economic benefits arising from the synergies.</p>			
<b>Ex17. Lottery ticket</b>	<p><i>Economic resource:</i> Unconditional promise of participation in the draw (with possibility of winning the cash prize if the ticket is the winning ticket). Promise is capable of generating cash from winning the prize or could be sold to others.</p> <p><i>Linkage to the entity:</i> Right, as holder of the ticket, to participate in the draw.</p> <p><i>Both presently exist:</i> Economic resource and right are observable (ticket establishes the contract).</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b></p> <p><i>Likelihood:</i> We think that it is clearer to remove any reference to likelihood, as that avoids an</p>			

Asset	Proposed Working Definition	IASB Definition	FASB Definition
<p>incorrect focus on the likelihood of the ticket being the winning ticket.</p> <p><i>Focus on resource rather than probable future economic benefits:</i> We think it is clearer to focus on the ticket (the resource) as being the asset, rather than focusing on the probable future economic benefits [Word omitted from Observer Notes].</p> <p><i>Control:</i> Focusing on the economic resource avoids the argument that there is no control because the entity cannot control whether the ticket will be the prize-winner. It is the ticket that must be controlled—not the prize, for the ticket entitles the entity to claim the prize if the ticket is drawn.</p> <p><i>Present economic resource rather than past event:</i> We think it clearer to focus on the economic resource that the entity has, rather than on where it came from.</p>			
<p><b>Ex18. Insurance coverage held</b></p>	<p><i>Economic resource:</i> Unconditional promise from insurance company to provide insurance coverage (for reimbursement of loss or compensation if a future event occurs) that is capable of producing cash inflows arising from a valid claim, or from the return of cash, if the remainder of the term is cancelled by the insurer.</p> <p><i>Linkage to the entity:</i> Established by contractual right identifying the entity as the beneficiary.</p> <p><i>Both presently exist:</i> Economic resource and rights are set out in contract.</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>
<p><b>Comments:</b></p> <p><i>Focus on resource rather than probable future economic benefits:</i> It is the unconditional promise from the insurer to provide insurance coverage that constitutes the economic resource, not the conditional promise to pay damages if an insured event occurs. We think that this becomes clearer by focussing on the economic resource, rather than the probable future economic benefits.</p> <p><i>Control:</i> We think it clearer to focus on the contract establishing the link to the entity, rather than assessing whether the probable future economic benefits are controlled [Word omitted from Observer Notes], that can lead one to conclude that the entity does not control whether there will be benefit from the contract.</p> <p><i>Present economic resource rather than past event:</i> We think it clearer to focus on the economic resource that the entity has, rather than on how it obtained that resource.</p>			

Asset	Proposed Working Definition	IASB Definition	FASB Definition
<p><b>Ex19. Insurance contract issued with renewal option</b></p> <p>(Does the issuer have an asset related to a relationship established by the written option to renew?)</p>	<p><i>Economic resource:</i> Relationship with customers (familiarity of the customer with the entity) who might do future business with the entity or be separately sold, each of which can result in future cash inflows.</p> <p><i>Linkage to the entity:</i> Established by entity's access to relationship that others who may want to sell to the customer do not have—which is an economic barrier to them.</p> <p><i>Both presently exist:</i> Relationship with customers and ability to restrict others' access are observable, including being documented in the contract.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b></p> <p><i>Focus on resource rather than probable future economic benefits:</i> Note that the asset is the customer relationship. It is not the future insurance premiums resulting from the renewal option [Phrase omitted from Observer Notes]. In assessing how to attach a number to the asset, the issuer would probably take into account the expectation that it will receive additional future business as a result of its access to the relationship (i.e., that some of those customers will renew their policies).</p> <p><i>Control:</i> In accordance with the existing definitions, it is less clear whether <i>control</i> of the customer relationship exists, since the issuer cannot stop the customer terminating the relationship. [Sentence omitted from Observer Notes] However, in accordance with the proposed working definition, we think it clearer that the entity does have access to the customer relationship at the balance sheet date.</p> <p><i>Present economic resource rather than past event:</i> It might be difficult to determine when the customer relationship was created or entered into, even though it is clear that the relationship exists at the balance sheet date. (The relationship does not necessarily commence on entering into the insurance contract—it can develop over time, ranging from when the salesman first called the customer to market the product through sale of the contract and subsequent follow-up activities.) Hence, we think it clearer to focus on whether the relationship presently exists, rather than on the past event creating the relationship.</p> <p><i>Note 1:</i> Some see an asset only when the written option to renew is at a fixed rate that is favourable to the market. However, even when the renewal is at a market rate a customer relationship asset might exist, representing the insurers' ability to sell to that customer without having to overcome economic barriers that others wishing to deal with that same customer might have to overcome.</p> <p><i>Note 2:</i> An analysis similar to that above applies to other types of renewal options, such as the option to renew a magazine subscription for an extended period.</p>			

Asset	Proposed Working Definition	IASB Definition	FASB Definition
<p><b>Ex20. Lease contract with rent based only on future sales</b></p> <p>(Does the lessor have an asset?)</p>	<p><i>Economic resource:</i> Unconditional promise by lessee to pay in the future, from which future cash flows are capable as long as there is a capability of future sales, or alternatively, from the sale of promise.</p> <p><i>Linkage to the entity:</i> Established by contract identifying the entity as the beneficiary.</p> <p><i>Both presently exist:</i> Economic resource and rights are set out in contract.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]
<p><b>Comments:</b></p> <p><i>Control and focus on resource rather than probable future economic benefits:</i> [Phrase omitted from Observer Notes] it is the resource (the promise) that is controlled. The entity does not have the power to require the lessee to make future sales, and hence pay rent. However, it does have rights to the contract, from which it is capable of benefiting as long as there are future sales.</p> <p><i>Present economic resource rather than past event:</i> We think it clearer to focus on the existence of the economic resource, rather than seeking to determine the event that created that economic resource.</p>			

Not an Asset	Proposed Working Definition	IASB Definition	FASB Definition
<p><b>Ex21. Air</b> (available to all)</p>	<p><i>Economic resource:</i> No economic resource because, today, air around us is widely available to all. It is not scarce, even though it is an essential resource needed to carry out activities, including those activities to generate goods or provide services that result in future cash flows.</p> <p><i>Linkage to the entity:</i> Anyone—including the entity—can access the air around us.</p> <p><i>Both presently exist:</i> N/A. There is no economic resource or linkage to the entity.</p>	[Analysis omitted from Observer Notes]	[Analysis omitted from Observer Notes]

Not an Asset	Proposed Working Definition	IASB Definition	FASB Definition
<p><b>Comments:</b> In the case of the proposed working definition [Phrase omitted from Observer Notes], air around us does not meet the definition of an asset because it is not an economic resource and there is no linkage to the entity, or the resource cannot be controlled by the entity. In the case of the FASB definition, ascertaining whether the entity can obtain or control the probable future economic benefits is not straight forward—see the following explanation.</p> <p><i>Control and focus on resource rather than probable future economic benefits:</i> [Phrase omitted from Observer Notes, whereas it is the resource that must be controlled in order to obtain the future economic benefits.</p> <p><i>Note:</i> An analysis similar to the above example applies to other types of publicly available items, such the ability to cross a bridge or walk on the street.</p>			
<p><b>Ex22. Cash held in trust</b> (Does the trustee holding the cash have an asset?)</p>	<p><i>Economic resource:</i> Cash itself that provides the ability to obtain other economic resources that can result in cash inflows or can result in additional cash through investment, e.g., earn interest.</p> <p><i>Linkage to the entity:</i> No. Though the trustee has physical access to a bearer instrument, the trustee has promised to safeguard and manage the cash for another. The trustee does not have a right to the cash.</p> <p><i>Both presently exist:</i> No right to economic resource though the economic resource exists.</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>
<p><b>Comments:</b> In the case of the proposed working definition [Phrase omitted from Observer Notes], cash held in trust does not meet the definition of an asset for the trustee because there is no linkage to the entity or future economic benefits are not expected to flow to the trustee. In the case of the FASB definition, ascertaining whether the entity can obtain or control the probable future economic benefits is not straight forward—see following explanation.</p> <p><i>Control and focus on resource rather than probable future economic benefits:</i> [Phrase omitted from Observer Notes], whereas it is the entity’s linkage to the resource in order to obtain the future economic benefits. The trustee does not have a right to the resource that entitles the future economic benefits to flow to or be obtained by the entity.</p> <p><i>Note:</i> An analysis similar to the above example applies to other types of assets held in trust.</p>			

Not an Asset	Proposed Working Definition	IASB Definition	FASB Definition
<p><b>Ex23. Offer of future discounts to potential customers</b> (Does the offeror have an asset?)</p>	<p><i>Economic resource:</i> None. (Merely mailing coupons or posting advertisements does not create a relationship—although it might help to reinforce an existing relationship. The relationship resource is no different from that in example 13.)</p> <p><i>Linkage to the entity:</i> None.</p> <p><i>Both presently exist:</i> N/A.</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>
<p><b>Comments:</b> Unless an offer is a “firm offer” under the Universal Commercial Code in the United States or another jurisdiction, an offer, alone, does not constitute a contract. Offers represent business opportunities. Offers may range from an offer to existing customers, in which case there might be a related customer relationship, through to offers to potential customers by vouchers placed in magazines or mailboxes, to a sign in a shop window (20% off the price of a new product for anyone who returns an old product). There might be a relationship asset or an asset resulting from an advertising programme. For example, an offer permitting a customer to purchase a second product at half price in the future if it had previously purchased a full price product, would be analysed similarly to the insurance renewal, above. The offer itself does not create an asset, but there might be an associated customer relationship asset.</p>			
<p><b>Ex24. Future sales by an established business</b> (Entity has high likelihood of receiving future cash payments for goods sold or services to be provided in the next year.)</p>	<p><i>Economic resource:</i> No economic resource because the entity does not have any unconditional promises from others to purchase goods or services or that could be sold to another for cash.</p> <p><i>Linkage to the entity:</i> No linkage because the entity has not established any contractual rights to payment.</p> <p><i>Both presently exist:</i> No. There are no contracts.</p>	<p>[Analysis omitted from Observer Notes]</p>	<p>[Analysis omitted from Observer Notes]</p>
<p><b>Comments:</b> This example demonstrates that future sales themselves do not meet the definitions of an asset as there is no economic resource or future benefits that the entity can control. The likely future sales are merely business opportunities that are capable of producing cash inflows. The established past history of sales demonstrates that, in some circumstances, there might be an associated customer relationship asset, as described in Example 13.</p>			

## Summary of Findings

8. The following table summarises the main problematic aspects of the existing definitions and how the proposed working definition seeks to overcome those aspects.

a. The proposed working definition focuses on the resource, rather than on probable future economic benefits.	All examples
b. The proposed working definition results in a clearer and more direct focus on what the entity presently has, rather than on where it came from.	All examples
c. The proposed working definition focuses on the capability of the economic resource producing cash inflows, rather than <i>expected</i> or <i>probable</i> economic benefits. That is, the proposed working definition eliminates reference to <i>likelihood</i> .	<p>Ex7. Drilling rights for oil</p> <p>Ex8. Proven oil reserve</p> <p>Ex10. Loan guarantee held</p> <p>Ex11. Assembled work force</p> <p>Ex13. Established customer relationships</p> <p>Ex14 and 14A. Contractual right to future music revenues from existing and future recordings</p> <p>Ex15. Non-compete agreement</p> <p>Ex16. Goodwill</p> <p>Ex17. Lottery ticket</p>
d. The existing definitions are unclear as to the meaning of <i>control</i> and what it is that is controlled. The proposed working definition seeks to overcome this by replacing <i>control</i> with <i>rights or other privileged access</i> .	<p>Ex7. Drilling rights for oil.</p> <p>Ex9. Non-patented invention</p> <p>Ex11. Assembled work force</p> <p>Ex12. Internally- developed list of customers</p> <p>Ex13. Established customer relationships</p> <p>Ex15. Non-compete agreement</p> <p>Ex16. Goodwill</p> <p>Ex18. Insurance coverage held</p> <p>Ex19. Insurance contract issued with renewal option</p> <p>Ex20. Lease contract based only on future sales</p>
e. The proposed working definition does not answer the question as to whether items such as a packaging asset or location exist separately from the promises and enforceable rights under individual accounts receivable. This remains as a unit of account issue.	<p>Ex2A. Portfolio of accounts receivable</p> <p>Factors and attributes discussed in Ex4. Raw material inventory, Plant and</p>

	machinery, Freehold interest in land.
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## EXISTING AND PROPOSED WORKING DEFINITIONS—FOR REFERENCE

### Existing IASB and FASB Definitions of an Asset

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.]

### 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 unconditional 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.

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.