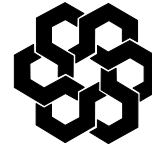




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This document is provided as a convenience to observers at the joint IASB-FASB meeting, to assist them in following the Boards' discussion. It does not represent an official position of the IASB or the FASB. Board positions are set out in Standards (IASB) or Statements or other pronouncements (FASB).

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

INFORMATION FOR OBSERVERS

IASB/FASB Meeting: 22 October 2007, Norwalk

Project: Conceptual Framework

Subject: Phase B: Elements & Recognition (Agenda paper 4A)

Introduction

1. At their separate meetings on October 16 and 17, 2007, the Boards tentatively decided the following regarding the working definition of an asset:
 - a. To focus the definition of an asset on a present economic resource, rather than on future economic benefits.
 - b. To remove the assessment of likelihood from the definition of an asset.
 - c. To focus the definition on the present, rather than on past transactions or other events.
 - d. To ask the staff to clarify the notion of *other access* in linking the entity to the economic resource, preferably without using the word *control*.

This paper focuses on the request from the Boards in sub-paragraph d.

2. Agenda Paper 16C/FASB Memorandum 66C, which was discussed at the Board's separate meetings, sets out the difficulties with using *control* to describe the linkage between the entity and the economic resource (see paragraphs 44 to 81). The Boards accepted that *control* was problematic in describing that linkage.
3. The Boards accepted that one means of linking an entity to an economic resource was by means of having a right to that resource. A suggestion was made at the FASB meeting to add the modifier "enforceable" before right in the proposed definition to more clearly express the intended concept directly in the definition. Thus, for a right to link an entity to an economic resource, that right must be enforceable by legal or other equivalent means, as explained in the definition of an enforceable right in the proposed working definition.
4. The tentative decisions in paragraphs 1(a)-(c), including the above suggestion, lead us to conclude that the first part of the working definition of an asset should read as follows:

"An asset of an entity is a present economic resource to which the entity presently has an enforceable right..."
5. However, the Boards acknowledged that a right is not the only means by which an entity may be linked to an economic resource and that an entity might access the resource by other means. Accordingly, the Boards asked the staff to clarify the meaning of *other access* in linking the entity to the economic resource, preferably without using the word *control*. The remainder of this paper explores the possibilities in that regard.

The Meaning of "Other Access"

6. A right has two key dimensions with respect to linking the entity to the economic resource. Specifically, the right: (a) establishes access by the entity to the economic resource, and (b) protects against access to that resource by others. Therefore, we conclude that *other access* also should have similar key dimensions.
7. With regard to the first of those two dimensions, entities have general access to an array of possible opportunities. However, an entity's access to an economic resource must be more

specific than general access that all others also have. For example, an entity may have general access to knowledge about an array of potential future customers that it may or may not ever do business with, but that does not give rise to an asset for that entity. Instead, the entity must have an established access to knowledge about an identifiable group of existing customers, as is the case with knowledge about an established clientele with which it has successfully done business with in the past and can do so again in the future.

8. With regard to the second dimension, it is not sufficient that an entity has access to an economic resource that all others have. Continuing the example in the previous paragraph, established access to knowledge about a group of customers does not give rise to an asset for the entity if that established access to knowledge is available to all. Access to knowledge in a publicly available database does not give rise to an asset for any entity. Access to that knowledge by others must also be protected in some way, either by the entity, or by other means.
9. An entity might be linked to an economic resource as a result of the economic resource being protected by secrecy or other barriers to access. Examples of economic resources protected by secrecy or other barriers to access include secret formulae and knowledge about customers. In these cases, the entity has established access to the economic resource and access to the economic resource by others is protected. Other barriers to access include those that are economic or physical. An example of an economic barrier to access is the costs another party would need to incur to establish access to an economic resource to which the entity has already established access. An example of a physical barrier to access is the water surrounding an island on which an economic resource, such as a mineral deposit exists, when the entity is already established with a presence on the island.
10. Similar to enforceable rights, established access and protection against access by others might arise as a result of actions by the entity or by others.

Proposed working definition of an asset

11. In considering the notion of *other access* since the October separate meetings, we have explored a number of options of how to explain the notion using words that completely and

succinctly explain the concept using simple terms. We have sought to use “words that mere mortals can understand,” that can be clearly translated and that are not as likely to be subject to legal analysis as to their meaning. We have also sought to strike a balance between including key concepts in the definition and using other text to explain those key concepts.

12. We propose the following working definition of an asset (emphasis added to identify the part to be deliberated at the joint meeting):

An *asset* of an entity is a present economic resource to which the entity presently has an enforceable right or other access that others do not have.

An *economic resource* is something that is scarce and capable of producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources. [The definition of an economic resource is unchanged from that discussed at the October separate IASB and FASB Board meetings.]

An *enforceable right* establishes access by the entity to the present economic resource and protects against access to that economic resource by others. *Rights* are legally enforceable or enforceable by equivalent means.

Access that others do not have establishes access by the entity to the present economic resource while access to the economic resource by others is protected.

13. We think that *access that others do not have* explains the linkage to an economic resource that is absent if we were to refer solely to an *enforceable right* using simple, straightforward words.
14. Given the difficulties of interpreting *control* in the existing asset definitions and the current challenge of clarifying how an entity is linked to an economic resource, we think it essential to accompany the asset definition with explanations of the key terms, *economic resource*, *enforceable right* and *access that others do not have*. Amplifying text can then elaborate further and provide practical illustrations of those key concepts. The explanation

of the key terms *enforceable right* and *access that others do not have* explains the need for established access and protection against access by others.

Alternatives rejected

15. The following table summarises some of the alternatives that we considered, but rejected.

Alternative considered	Reasons for rejection
(a) "...other control over access"	<ul style="list-style-type: none"> • Uses the term <i>control</i>, which is commonly misunderstood or misapplied (see IASB Agenda Paper 16C/FASB Memorandum 66c from the October meeting). • Implies that the entity must exercise the control, whereas the intended result is that the entity's access could be established by the entity or by others or by other means (such as economic or physical barriers). • Does not explicitly refer to what is excluded.
(b) "...other access not available to all others"	<ul style="list-style-type: none"> • Proposal is more concise and uses simpler words. • Describes the concept from the perspective of others, rather than from that of the entity. (This is a drawback of the proposed definition too.)
(c) "...other similar access"	<ul style="list-style-type: none"> • Relies too heavily on a need to further explain "similar."
(d) "...other access"	<ul style="list-style-type: none"> • Does not express the type of access intended—provides no "hook" to an additional explanation. • Relies heavily on reader referring to an additional explanation to understand the concept.
(e) "...other exclusive access"	<ul style="list-style-type: none"> • Could be read as excluding shared access (not intended).
(f) "...ability to limit access"	<ul style="list-style-type: none"> • Similar concern as "control over access," as the ability is limited to that exercised by the entity and excludes

	<p>an ability exercised by others that provides the entity with access that others do not have.</p> <ul style="list-style-type: none"> • Excludes economic and physical barriers as these are not abilities.
(g) "...other limited access"	<ul style="list-style-type: none"> • "Limited" is similar to "privilege." • Not clear what "limited" means or who's access is limited—the entity's or others'. • Might be misread to preclude full and unrestricted access.

Action requested

16. *Board members are requested to discuss, and if considered appropriate approve, the definition in paragraph 12 as a working definition for use in the remainder of Phase B of the Conceptual Framework project.*

17. At the IASB's separate meeting in October, some Board members requested that we illustrate how the definition would look if it were to be worded to focus first on the entity's link to the economic resource. We think that if it were to be reworded in that manner it would look something like the following:

"An *asset* of an entity is its present enforceable right or other access that others do not have to a present economic resource."

18. We think that is not the preferred wording, for the reasons set out in paragraphs 83 to 88 of Agenda Paper 16C/FASB Memorandum 66C.