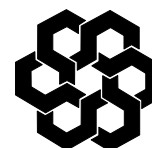




Financial Accounting
Standards Board

401 Merritt 7, PO Box 5116, Norwalk, CT 06856,
USA
Tel: +1 203 847 0700
Fax: +1 203 849 9714
Website: www.fasb.org



International
Accounting Standards
Board

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

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: 20 October 2008, Norwalk

Project: Conceptual Framework

Subject: Phase B: Elements & Recognition (Agenda paper 2)

OBJECTIVE OF THIS PAPER

1. Staff have been drafting portions of the Phase B discussion paper explaining the improved definitions of an asset and a liability. This has included considering consequences for the definition of an asset of decisions made by the Boards while discussing the definition of a liability.
2. In the course of that drafting, we have become concerned about how some aspects of the proposed definitions are expressed. As the definitions are fundamental tools in financial reporting, we think that is worth more clearly writing some aspects of the definitions. A

Conceptual Framework: Element Definitions

clearly written definition will be more understandable and will facilitate communications with constituents.

3. Our key concerns relate to:
 - (a) The definitions not following a parallel structure and not using parallel terms where possible (explained in paragraphs 11-22); and
 - (b) That the link between the entity and the economic resource in the asset definition is *not* consistently described in the single-sentence definition and the supporting explanation (explained in paragraph 23).
4. To address these concerns, this paper recommends improvements that could be made in how the definitions are expressed, compared to the last versions discussed by the Boards. The paper also takes into account the guidance received from Board Advisors in September 2008.
5. The objective of this paper is to obtain agreement on whether improvements would more clearly communicate the intended meaning of the asset and liability definitions and which, if any, improvements should be incorporated into the definitions being proposed and explained in the discussion paper.
6. The paper first presents staff's recommended pair of definitions of an asset and a liability. To support the improvements made to those definitions, the paper identifies the strengths and then weaknesses we see with the most recent definitions approved by the boards. As well, the paper outlines some alternatives to how the weaknesses could be overcome that were considered and rejected.
7. This paper does not consider how to distinguish a liability from equity. That work will commence after the initial analysis of comments on the Discussion Paper, "Financial Instruments with Characteristics of Equity," is available.

STAFF RECOMMENDATION

8. Based on concerns identified and the alternatives considered (see analysis in paragraphs 11-23 and 25-28), we recommend the following definition of an asset and of a liability. Though one or two terms may not be ideal, we think that the terms work—they identify and describe the concepts that will result in the definitions being more effective tools.

An <i>asset</i> of an entity is a present economic resource to which the entity has either a right or other access that others do not have.	A <i>liability</i> of an entity is a present economic obligation for which the entity is the obligor.
<p>(a) <i>Present</i> means that on the date of the financial statements both the economic resource and the right or other access that others do not have exist.</p> <p>(b) An <i>economic resource</i> 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. Economic resources that arise from contracts and other binding arrangements are unconditional promises and other abilities to require provision of economic resources, including risk protection, that are enforceable by legal or equivalent means.</p> <p>(c) A <i>right or other access that others do not have</i> enables the entity to use the economic resource and its use by others can be precluded or limited. A right or other access that others do not have needs to be enforceable by legal or equivalent means.</p>	<p>(a) <i>Present</i> means that on the date of the financial statements both the economic obligation exists and the entity is the obligor.</p> <p>(b) An <i>economic obligation</i> is an unconditional promise or other requirement to provide or forgo economic resources, including risk protection, that is enforceable by legal or equivalent means.</p> <p>(c) An entity is the <i>obligor</i> if the entity is required to bear the economic obligation and its requirement to bear the economic obligation is enforceable by legal or equivalent means.</p>

DEFINITIONS APPROVED BY THE BOARDS

9. In the last meetings on the asset and liability definitions, the Boards agreed to use the following definitions as a basis for drafting.¹ The Boards directed staff to consider improvements that are shown in mark up below.

<p>An <i>asset</i> of an entity is a present economic resource to which, through an enforceable right or other means, the entity has access or can limit the access of others.</p>	<p>A <i>liability</i> of an entity is a present economic obligation that is enforceable against the entity.</p>
<p>(a) <i>Present</i> means that both the economic resource and the enforceable right or other means by which the entity has access or can limit the access of others exist on the date of the financial statements.</p> <p>(b) An <i>economic resource</i> 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.</p> <p>(c) An <i>enforceable right</i> is legally enforceable or enforceable by equivalent means (such as by a professional association), and it enables the entity to use the present economic resource directly or indirectly and precludes or limits its use by others.</p>	<p>(a) <i>Present</i> means that the economic obligation exists on the date of the financial statements.</p> <p>(b) An <i>economic obligation</i> is something that is capable of resulting in cash outflows or reduced cash inflows, directly or indirectly <u>the entity providing economic resources²</u>, alone or together with other economic obligations. <u>Economic obligations are unconditional requirements to perform specified actions or provide risk protection against an unfavourable uncertain future event.</u></p> <p>(c) Obligations link the entity with what it has to do because <u>are enforceable</u> against the entity by legal or equivalent means.</p>

¹ The definition of an asset was last discussed in October, 2007. The definition of a liability was last discussed in June 2008.

² The Boards decided to replace the description of economic obligation with *providing economic resources* in order to avoid the extra steps needed to explain how providing a non-cash economic resource linked back to providing cash. A parallel change to the definition of an economic resource was not made because, though non-cash economic resources can be produced or received, ultimately, everything boils down to cash and cash is the type of information of interest to capital providers.

STRENGTHS

10. We think that the following are the main strengths of the current working definitions approved by the Boards.

- (a) Both definitions clearly identify the economic phenomenon constituting the “stock”—the *economic resource* and the *economic obligation*.
- (b) The definitions use the attributes of *present* and *enforceable* in more or less parallel manners.
- (c) The definitions include all key criteria needed to assess whether something is an asset or a liability in the single-sentence definition, with supporting text to explain those key criteria. Though this can be viewed as a strength, it can also be a weakness. On the one hand, it can make the single-sentence definition harder to understand. On the other hand, it increases the likelihood that users of the definitions will consider all key criteria.

WEAKNESSES**Definitions do not follow a parallel structure or use parallel terms**

11. The first key weakness is that the definitions do not follow a parallel structure or use parallel terms where possible. In general, all liabilities are someone else’s assets³ (although the reverse does not hold true—not all assets give rise to a corresponding liability). Therefore, it seems logical for the definitions to reflect that symmetry. The prior and existing definitions of the IASB and FASB have, essentially, reflected that symmetry. As a result, readers have become accustomed to thinking about and using the existing definitions in this manner. If the improved definitions are not parallel where possible, these definitions are more likely to be misunderstood.
12. To communicate clearly, we think that the definitions should be parallel to the extent that assets are counterparts of liabilities, or vice versa, and the accompanying text should explain why there are differences. Some board members have expressed a preference to follow or

³ This statement is made in general as there some situations where a liability is not another’s asset, such as an asset retirement obligation.

Conceptual Framework: Element Definitions

support a parallel approach. The definitions developed above are not parallel in the following ways.

Structure: link to the entity in the liability definition

13. In developing and applying the definitions, the Boards have relied on the base formula of an element of an entity as being:

“An element of the entity = an economic phenomenon + the link”.

14. The proposed asset definition clearly follows this structure by using *economic resource* to describe the economic phenomenon, and *right*, etc., to describe the link between the economic resource and the entity. The proposed liability definition does not follow this structure; instead it combines the economic phenomenon and the link by using one description—an *economic obligation that is enforceable against the entity*. As a result, this can be interpreted as describing the link in two alternative ways (discussed in the next paragraph) in the liability definition.
15. One way of interpreting the description—an *economic obligation that is enforceable against the entity*—is that the term *obligation* is doing “double duty” by referring to both the economic phenomenon and the link. The second way, following the structure used in the proposed asset definition, is that the link is established by the phrase *enforceable against the entity*. The supporting text to the liability definition provides no more clarity because it only repeats the terms from the single-sentence definition that *obligations are enforceable against the entity*, with no further explanation. This is unlike the description of the asset link, which explains how a link can be identified because it *enables the entity to use the present economic resource directly or indirectly and precludes or limits its use by others*. With the removal of the description that obligations *link the entity with what it has to do* in part (c) of the liability definition, that clarity has been lost. [See recommendation in paragraph 24c]
16. Based on further thinking, we are concerned about the link in the liability definition being interpreted in the second way—as being *enforceable against the entity*. The link is intended to focus on identifying what binds an entity to the economic phenomenon, such as being cited in a valid contract or other binding arrangement. However, enforceability relates to the

Conceptual Framework: Element Definitions

ability to make the cited party, rather than another party, take the action (or inaction) specified in the arrangement.

17. On the asset side, a right, etc., binds the economic resource to the entity and is enforceable because the entity can demand or protect its claim to or ability to use the economic resource. Thus, the link exists independently and enforceability is an attribute of the link and the economic phenomenon. In the liability definition, we think that the link is the obligation that identifies the entity as the party that must bear the economic obligation. The challenge is finding a noun to express *obligation* as it is being used to describe the economic phenomenon in the liability definition. [See recommendation in paragraph 24c and alternatives considered in paragraphs 25-28]

Structure: economic phenomenon is enforceable

18. An additional weakness with the current working definition of a liability is that enforceability is an attribute of the economic phenomenon as well as the link. In contractual and other binding arrangements, the economic phenomenon and the link, in combination, are enforceable, i.e., both the thing that needs to be done and who is to do it need to be enforceable. Yet, in part (c) of the supporting text to each definition, enforceability is only discussed as a characteristic of the link. [See recommendation in paragraph 24i]

Structure: present requirement

19. The supporting explanation of *present* in the definition of an asset specifies that *both* the economic resource and the right, etc., must be present. Yet, the supporting text in the definition of a liability requires only that the economic obligation be present. If *economic obligation* is read to be both the economic phenomenon and the link, then the term *present* will be understood as intended. However, if *economic obligation* is read to refer only to the economic phenomenon, then one could misapply the definition and include items that the entity will be linked to in the future, i.e., when an entity is to assume another's obligation at a future date. [See recommendation in paragraph 24d]

Conceptual Framework: Element Definitions

Term: unconditional

20. Though the liability definition requires an economic obligation to be *unconditional*, the asset definition does not specify whether an economic resource should be unconditional. Being unconditional is an essential attribute of liabilities. However, for physical assets, internally developed intangible assets, or other similar assets, conditionality does not apply. Although *unconditional* is an essential attribute of those assets that arise from contracts, statutes and other binding arrangements, like liabilities, it is not an aspect of all assets that requires evaluation. [See recommendation in paragraph 24b]

Term: is something that is capable of resulting in the entity providing economic resources

21. Though the phrase *is something that is capable of resulting in the entity providing economic resources* in the description of an economic obligation parallels the phrase in economic resource, the reference to *capable* is misleading and not appropriate. Capable implies that the entity has the ability to provide economic resources, but could avoid doing so. However, an economic obligation is something the entity cannot avoid. [See recommendation in paragraph 24e]

Term: alone or together with other economic obligations

22. Though the term *alone or together with other economic obligations* in the description of the economic obligation in the liability definition parallels the equivalent term in the description of economic resource in the asset definition, the term is not appropriate in the description of an economic obligation. In the economic resource definition, the term is used to capture how *cash inflows or reduced cash outflows, directly or indirectly*, may occur independently (alone) or as a result of a combination of (together with) economic resources. For example, factory equipment generates cash inflows indirectly and in combination with other equipment or other economic resources, when products are produced and sold. On the liability-side, settling a note payable can result in an entity giving up cash and equity shares, a combination of economic resources. However, contracts and other binding arrangements that give rise to economic obligations identify specified parties to whom economic resources are to be given. Thus, even when a group of economic obligations are restructured, each is separately settled

Conceptual Framework: Element Definitions

with the specified party and a new economic obligation is created. Therefore, the term does not apply to contractual and other binding obligations because they are not settled in combination with other economic obligations. [See recommendation in paragraph 24g]

Inconsistent description of link between the entity and the economic resource

23. The second key weakness involves the current working definition of an asset. It is that the link between the entity and the economic resource in the asset definition is not consistently described in the single-sentence definition and the supporting explanation. The single-sentence definition describes the link between the economic resource and the entity using the statement *the entity has access or can limit access of others* (emphasis added). However, part (c) of the supporting text states that a right, *enables the entity to use the present economic resource directly or indirectly and precludes or limits its use by others* (emphasis added). Four scenarios might be envisaged, some of which result in assets and some of which do not:

- (a) The entity has access and can limit access of others (This is the most obvious scenario, whereby the entity clearly has rights or other access to the economic resource and, by virtue of its rights, can limit the access of others to that economic resource.);
- (b) The entity has access and the access of others is limited by other means. (For example, an entity might have access to a bridge, but access to the bridge is restricted by another party, or an entity might be able to access a high mountain location that few others can access given its challenging location and harsh weather conditions—i.e., access is restricted by the forces of nature.);
- (c) The entity has access but the access of others is not limited (For example, an entity might have access to an economic resource such as a public roadway or water supply, but all other entities also have access to that economic resource.); and
- (d) The entity does not, itself, have access but can limit the access of others (We have not identified examples of this scenario, other than in the public sector, whereby a government, or other regulatory authority, has the authority to determine rules and regulations relating to economic resources, to which it does not, itself, have access).

Conceptual Framework: Element Definitions

Only scenarios (a) and (b) would seem to give rise to assets. Therefore, the critical factors seem to be that the entity has access and the access of others is limited (whether by the entity, by others, or by other factors). But, that is not the effect of the words as currently drafted. [See recommendation in paragraph 24a]

PARALLEL AND IMPROVED DEFINITIONS

24. To make the definitions more parallel and address the weaknesses cited above, we propose the following improvements to the definitions approved by the Boards.⁴ The letter references explain the reasons for each change.

<p>An <i>asset</i> of an entity is a present economic resource to which <u>the entity has either^j, through an enforceableⁱ right or other access that others do not have^a means, the entity has access or can limit the access of others.</u></p>	<p>A <i>liability</i> of an entity is a present economic obligation for which the entity is the obligor^c that is enforceableⁱ against the entity.</p>
<p>(a) <i>Present</i> means that <u>on the date of the financial statements^j both the economic resource and the enforceableⁱ right or other means by which the entity has access that others do not have^a or can limit the access of others exist on the date of the financial statements^j.</u></p> <p>(b) An <i>economic resource</i> 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. <u>Economic resources that arise from contracts and other binding arrangements are unconditional^b promises and other abilities to require provision of economic resources, including risk protection, that are enforceableⁱ by legal or equivalent means.</u></p> <p>(c) <u>An <i>enforceable right or other access</i> that others do not have^a is legally enforceableⁱ or enforceable by equivalent means, and it enables the entity to use the presentⁱ economic resource directly or indirectlyⁱ</u></p>	<p>(a) <i>Present</i> means that <u>on the date of the financial statements^j both^d the economic obligation exists and the entity is the obligor^d on the date of the financial statements^j.</u></p> <p>(b) An <i>economic obligation</i> is something that is capable^e of resulting in the entity providing economic resources, alone or together with other economic obligations^e. Economic obligations are <u>an unconditional promise or other requirement^b to provide or forgo^f economic resources, including requirements to perform specified actions or provideⁱ risk protection, that is enforceable by legal or equivalent meansⁱ against an unfavourable uncertain future event^h.</u></p> <p>(c) <u>An entity is the obligor^c if the entity is required to bear the economic obligation and its requirement to bear the economic obligations link the entity with what it has to do because obligations are is</u></p>

⁴ Paragraph 8 and the Appendix to this paper include the recommended definitions with proposed changes accepted for easy reading and reference.

Conceptual Framework: Element Definitions

and <u>its use by others can be precluded^a or limited^a its use by others. A right or other access that others do not have needs to be enforceableⁱ by legal or equivalent means.</u>	enforceable ⁱ against the entity by legal or equivalent means.
---	--

References that explain each change:

Definition of an asset

- ^a Revised the link between the economic resource and the entity to *the entity has either a right or other access that others do not have*. The revision simplifies the single-sentence definition and by identifying each type of access provides a hook in the single-sentence definition from which to explain each type in the supporting text. As well, the explanation of those two terms in part (c) of the supporting text has been revised to reflect the intended meaning. [Address weakness in paragraph 23.] To demonstrate access an entity has that others do not have, the amplifying text should illustrate the limited nature of access and distinguish it from scarcity of the economic resource. For example, in some cities, bridges that trucks with heavy loads can cross are scarce economic resources, whereas a limited number of truck drivers who can cross the bridges refers to access. If only a few may cross, an allowed truck driver has a right or other access that others do not have.
- ^b Parallel with the need for economic obligations to be unconditional, we clarified the types of economic resources that also must be *unconditional* in the description of economic resource in part (b). Unlike physical and some intangible economic resources, in-bound *promises* that arise from contracts and *other abilities* that arise from statutes, regulations and other binding arrangements, must be unconditional. We considered alternative terms and ways to describe *other abilities*—the stock that arises from other binding arrangements—such as *requirements* and descriptions that did not also refer to the link. *Requirement* implies something that must be done, thus, is an appropriate term in the parallel description of an economic obligation for obligations that arise from non-contractual binding arrangements. However, the parallel—a requirement to receive—does not work in the description of an economic resource. As no better term or description was found, we propose to use *other abilities* described as *to require provision of economic resources*. [Address weakness in paragraph 20.]

Conceptual Framework: Element Definitions

In the economic obligation description of the liability definition, we have not specified the arrangements that give rise to unconditional promises and other requirements because there is no need. Unlike economic resources, all economic obligations are unconditional. As well, all economic obligations arise from contracts and other binding arrangements, consistent with unconditional economic resources.

Definition of a liability

- ^c After evaluating various terms and descriptions, as well as, whether to revise the label of economic phenomenon instead, *obligor* was selected as a workable term to describe the liability link. Obligor is a strong term. By definition, an “obligor” in law is “a person who is bound to another by contract or legal procedure.”⁵ This definition is a faithful description of the intended role of the link in the liability definition. For constituents with contract experience, obligor will be a familiar term. For others, this term, like other terms and descriptions considered, might be a new term to learn. We think that using a new term will be helpful in drawing attention to and communicating the fundamental concepts in the element definitions—being the economic phenomenon and the link. As well, the description of the link in part (c) of the liability has been revised to explain how the obligor can be identified. Also, this description emphasises that the term *obligor* captures links that are enforceable by other means. [Addresses weaknesses in paragraphs 14-18. For alternative terms and descriptions considered refer to paragraphs 25-28.]
- ^d Added an explicit reference to the link, *that the entity is the obligor*, in the present requirement, part (a) of the supporting text. [Address weakness in paragraph 19.]
- ^e Removed the phrase *is something that is capable of resulting in the entity providing economic resources* in the description of an economic obligation because *capable* implies that the entity could avoid or might not have to provide economic resources, when an economic obligation is something the entity cannot avoid. With the inclusion of the description of unconditional promises and other requirements, the phrase is also redundant. This is an example where the description of economic obligation need not parallel the description of economic resource. [Address weakness in paragraph 21.]

⁵ Accessed *Oxford English Dictionary Online* in August 2008.

Conceptual Framework: Element Definitions

- ^f Expanded the description of economic obligation in part (b) of the liability definition to include to *forgo* economic resources. This improvement captures promises or other requirements to not take actions that could of resulted in receiving economic resources, such non-competition agreements.

We also note that the element definitions are written from the perspective of the entity. Thus, the description of economic obligation focuses not on how the economic obligation arose (i.e. what economic resources it received) but on what the stock requires the entity to do—to provide or forgo economic resources.

- ^g Removed the phrase *alone or together with other economic obligations* in the description of economic obligation in part (b) of the liability definition because it does not apply to economic obligations. [Address weakness in paragraph 22.]
- ^h Deleted the phrase *against an unfavourable uncertain future event* as it is not essential.

Both element definitions

- ⁱ Removed the reference to the links being enforceable in the single-sentence definitions so enforceability can be explained as a requirement in the supporting text where appropriate. In addition to retaining the requirement that the links in the definitions must each be enforceable in part (c), we have expanded the supporting text explanations in part (b) of each definition to require that *the economic phenomena* that arise from contracts and other binding arrangements also are enforceable. We considered separately identifying enforceability as a fourth attribute of each definition but found adding an enforceability hook to the single-sentence definitions too cumbersome. [Address weakness in paragraph 18.]
- ^j Minor revision made to make the definitions more parallel.

ALTERNATIVES CONSIDERED

25. We have had considerable difficulty drafting the definitions in a parallel manner where possible because of trying to find suitable and distinct terms that capture the essence of what the link and the economic phenomenon in the liability definition are.
26. The link in the liability definition is to identify who must bear the economic phenomenon. We considered identifying the link as *the entity is obligated/obliged* or *the entity is the*

Conceptual Framework: Element Definitions

obligor. Many think that obligated or obliged are not clear enough terms as they are derivatives of obligation. As well, there is a strong North American preference to use “obligated” and a strong British preference to use “obliged.” Without a doubt, we think that the element definitions should use identical terminology. We think that we should avoid using terms which could result in editorial changes. The rationale for using *the obligor* is cited in paragraph 24c.

27. We also considered making the single-sentence definitions of an asset and a liability mirror images by using the generic description *of the entity* to describe the link. For the majority of items, the single-sentence definition—for example, a liability is a present economic obligation of the entity—may suffice. For complex items, the supporting explanations, similar to those in the recommended definition, would provide the guidance to ascertain whether the definition is met. Though the simplicity of this proposal may be appealing, some think that too much reliance would be placed on the proper understanding of the term *of* and that using the same description for link in both definitions would be confusing.
28. As we did not identify an ideal term to describe the liability link, we also tried a different approach. As *obligation* is the natural opposite of *right* and could be used to describe the liability link, we tried to find a replacement for economic obligation. Of the synonyms for obligation⁶, we considered two workable alternatives—*economic requirement* and *economic duty*. By definition⁷, a requirement is an instruction or expectation to do something, whereas duty is broader, including moral, as well as, legal obligations. Requirement captures the essence that it is something an entity has to do—there is no choice. While duty, in conjunction with enforceability, includes moral situations that based on facts and circumstances result in things the entity has to do. Based on comments from some board advisors and staff, we learned that some interpret one term more broadly than other, and vice versa. We also solicited comments on how each of these terms would translate from staff who speak other languages. Similar difficulties were encountered. Some also expressed concern about introducing a new

⁶ Synonyms for obligation includes accountableness, [agreement](#), [bond](#), [burden](#), [commitment](#), [compulsion](#), [contract](#), [covenant](#), [debt](#), [duty](#), [encumbrance](#), [guarantee](#), [incumbency](#), [indebtedness](#), [liability](#), [loan](#), [mortgage](#), [must](#), [need](#), noblesse oblige, [oath](#), [onus](#), [pledge](#), prevenience, [promise](#), [requirement](#), [responsibility](#), [stipulation](#), [vow](#), [warranty](#), Thesaurus.com, accessed September 2008.

⁷ Accessed *Oxford English Dictionary Online* in August 2008.

Conceptual Framework: Element Definitions

term. Reflecting back on terms previously considered in the project, some still prefer *economic burden* as it is the natural opposite of economic resource.

SUMMARY OF RECOMMENDATIONS

29. For financial reporting, we think that the definitions must separately identify the essential components of each element in order for the definitions to be consistently understood and applied. Therefore, we recommend that:

- (a) the improvements proposed in this paper be made to the current working definitions of an asset and a liability;
- (b) a liability of an entity be defined, using workable terms to identify the key concepts, as a present *economic obligation* for which the entity is *the obligor*; and
- (c) we move on and ask for constituents' views on the improvements and terms proposed in the asset and liability definitions.

QUESTIONS FOR THE BOARDS

30. Which, if any, of the following improvements to the definitions proposed should be made?

Definition of an asset

- (a) Link—Revise the asset link description to *the entity has either a right or other access that others do not have* in the single-sentence definition and the explanation of those two terms in part (c) of the supporting text to reflect the intended meaning (see improvement in paragraph 24a)?
- (b) Unconditional—Clarify in part (b) of the supporting text that *economic resources that arise from contracts and other binding arrangements are unconditional promises and other abilities to require provision of economic resources, including risk protection* (see improvement in paragraph 24b)?

*Conceptual Framework: Element Definitions**Definition of a liability*

- (c) Link—Revise the liability link to *the entity is the obligor* as obligor is a workable term and is a faithful description of the intended role of the link in the liability definition (see improvement in paragraph 24c)?
- (d) Link must also be *present*—Add an explicit reference to the link in the present requirement of part (a) of the supporting text (see improvement in paragraph 24d)?
- (e) Capable—Remove the phrase *is something that is capable of resulting in the entity providing economic resources* in the description of an economic obligation in part (b) because *capable* implies that the entity could avoid it (see improvement in paragraph 24e)?
- (f) Forgo—Add the term to *forgo* economic resources in the description of economic obligation in part (b) to include unconditional promises and other requirements to not take actions that could of resulted in receiving economic resources (see improvement in paragraph 24f)?
- (g) Alone or together—Remove the phrase *alone or together with other economic obligations* in the description of economic obligation in part (b) as it does not apply (see improvement in paragraph 24g)?
- (h) Future event—Remove the phrase *against an unfavourable uncertain future event* as it is not essential (see improvement in paragraph 23h)?

Both element definitions

- (i) Enforceability— Explain *enforceability* as a requirement of economic phenomenon that arise from contracts and other binding arrangements and of the links in the supporting text to each definition (see improvement in paragraph 24i)?

If an improvement should not be made, why not?

Conceptual Framework: Element Definitions

31. Do you agree that the asset and liability definitions recommended by staff in paragraph 8 or the copy in the Appendix will more clearly communicate the intended meaning of the definitions and should be proposed in the discussion paper and why? If not, why not?

*Conceptual Framework: Element Definitions***APPENDIX — Recommended improved set of definitions** (from paragraph 24 with the proposed changes accepted)

An <i>asset</i> of an entity is a present economic resource to which the entity has either a right or other access that others do not have.	A <i>liability</i> of an entity is a present economic obligation for which the entity is the obligor.
<p>(a) <i>Present</i> means that on the date of the financial statements both the economic resource and the right or other access that others do not have exist.</p> <p>(b) An <i>economic resource</i> 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. Economic resources that arise from contracts and other binding arrangements are unconditional promises and other abilities to require provision of economic resources, including risk protection, that are enforceable by legal or equivalent means.</p> <p>(c) A <i>right or other access that others do not have</i> enables the entity to use the economic resource and its use by others can be precluded or limited. A right or other access that others do not have needs to be enforceable by legal or equivalent means.</p>	<p>(a) <i>Present</i> means that on the date of the financial statements both the economic obligation exists and the entity is the obligor.</p> <p>(b) An <i>economic obligation</i> is an unconditional promise or other requirement to provide or forgo economic resources, including risk protection, that is enforceable by legal or equivalent means.</p> <p>(c) An entity is the <i>obligor</i> if the entity is required to bear the economic obligation and its requirement to bear the economic obligation is enforceable by legal or equivalent means.</p>