Date recorded:
Feb 18, 2013

The Staff presented an initial draft of the Conceptual Framework discussion paper (DP) for the IASB's discussion. At the February Board meeting the Staff highlighted to the Board the following sections of the DP for discussion:

1. Purpose and status of the Conceptual Framework;
2. Elements of Financial Statements;
3. Recognition and derecognition; and
4. Measurement

A number of papers were prepared by the Staff for the Board discussion. It was noted that the Board responses to the questions in the papers would form the basis of the preliminary views expressed in the DP. The Staff also noted that they were in very early draft stages of the DP and they were seeking comment from the Board members on the key concepts in their papers.

The Staff noted that the draft DP did not include sections on:

1. **Introduction and invitation to comment;**
2. **Reporting entity** – Reporting Entity issues were to be discussed in Agenda Paper 3H;
3. **Presentation (including the OCI question) –** This was to be discussed at the March 2013 meeting
4. **Disclosures –** This was to be discussed at the March 2013 meeting
5. **Appendix** – Which it was envisaged would include Chapter 1 *The objective of general purpose financial reporting* and Chapter 3 *The qualitative characteristics of useful financial information.*

The Staff also noted that there were also sections of the papers that were to be presented in the February Board meeting that were incomplete (such as in Agenda Paper 3C – additional guidance was required on constructive obligations and obligations to stand aside). The Staff noted that these would be completed for discussion at the March 2013 Board meeting.

The Staff highlighted that in the February 2013 Board meeting they also intended to discuss:

1. Reporting entity (decision making session);
2. Conceptual Framework: Feedback on survey and discussion forum (education session only); and
3. ASBJ research on the use of OCI (education session only)

The Staff were aiming to produce a revised draft of the DP for the April Board meeting.

The Staff proposed that the DP should include the definition of a liability as **a present obligation to transfer an economic resource**. They noted that the focus of a liability is that it is an obligation rather than the outflow of economic benefits that the obligation may generate. The Staff also noted that the reference to "past event" can be deleted as the requirement for a liability to be a present obligation already includes the notion of a past event. However the Staff did note that one of their options for guidance to identify a present obligation (that they were asking the Board to consider) did include a role for notion of a past event.

At the Board meeting on Monday 18 February 2013, the Board focussed on the guidance to support the definition of a liability. The Staff noted that a present obligation is one that exists at the reporting date. They noted that to identify a liability is was necessary to distinguish between present obligations and possible future obligations. The Staff noted that difficulties are encountered in practice because it is unclear whether an entity has a present obligation when the requirement to transfer resources remains conditional on the occurrence of uncertain future events. The Staff noted that future events can be of two types:

1. Those whose occurrence is outside control of the entity; and
2. Those whose occurrence depends on the entity's future actions.

For those future events that were outside of control of the entity (sometimes called "stand ready" obligations) the Board had previously concluded that these unconditional obligations are present obligations that meet the definition of a liability. The Staff noted that this was not included within the current conceptual framework as an overriding principle.

The Staff noted that the greater debate is therefore on where there are future events that are dependent upon the entity's future actions (i.e. does a liability exist if the eventual need to transfer economic resources depends upon the entity's own future actions). It was noted that the existing Conceptual Framework did not address this and treatment within existing standards is inconsistent.

The Staff presented 8 transactions that fell within this "grey" area and asked the question whether there was a present obligation in each case.

The Staff also presented three alternative approaches to try to develop some guidance on liabilities that are conditional on future events.

Approach 1: Apply a principle that obligations must be unconditional

The Staff noted that one approach could be to state that an obligation must be unconditional. Under this approach, for as long as the entity could, at least in theory, avoid the transfer of resources through its future actions, it would not have a present obligation. The Staff noted that none of their examples, under this approach, would have a present obligation. In each case, there remained a condition that needed to be satisfied before the entity was unconditionally obliged to transfer resources. Under approach 1, the obligation would not be a present obligation until that condition had been satisfied.

Approach 2: Modify the principle that a liability must be unconditional

Under this approach the principle that an obligation must be unconditional would be modified, stating that a present obligation also existed if:

1. an obligation that accumulated over time or as the entity received goods or services had already started to accumulate; and
2. although there was a theoretical possibility that a final condition would not be met, that possibility was not a realistic one.

Under this approach, present obligations would exist for some of the examples that the Staff provided (bank levy, electrical supplier levy as examples) as the present obligation has started to accumulate and could not realistically be avoided. Under this approach, the Staff did note that there may be difficulty in judging whether an entity has a realistic possibility of avoiding a final condition.

Approach 3: Focus on past events instead of future events

Under this approach the focus would be on past rather than future events. An entity would be viewed as having a present obligation if, as a result of past events, it had an obligation to transfer economic resources to another party on more onerous terms that would have been required in the absence of the past events. It was noted that this obligation could be conditional on the occurrence or non-occurrence of a future event or unconditional (i.e. exercisable immediately or at a specified future date).

The Staff asked the Board which of the approaches they thought should be included within the DP and whether they had a preliminary view as to which approach should form the basis of the guidance in the Conceptual Framework.

One Board member asked whether the Staff had given any thought to symmetry with the asset definition under approach 3 (i.e. in the examples where there was a liability the counterparty would have an asset). The Staff noted that in their opinion for every liability there should be an asset (i.e. for every obligation to transfer resources someone else should have a right to receive resources) and whatever approach was selected for the liability definition it would affect the definition of an asset.

Another Board member agreed that symmetry should be considered and tentatively favoured approach 2. He noted that symmetry would be best achieved with approach 2 and that this was not achieved under approach 3. He noted that when the new Conceptual Framework is being developed, the asset and liability side should be considered concurrently and hence the consideration of symmetry in the liability discussion. This member noted that approach 3 raises a good point that should be covered in the discussion paper being going concern and how the going concern assumption feeds into the consideration of whether there is a liability or not. This member noted that the DP should include a discussion of this. This Board member also noted that she felt that the DP should make it clear that three options were considered by the Board and the problems with them not just the discussion of the approach that the Board recommends.

Another Board member was tentatively moving towards approach 2 – he noted that approach 1 was too limited and approach 3 was too broad. He also agreed that the going concern discussion should be covered in the DP when considering liabilities as to the symmetry point raised by other Board members.

Another Board member noted that she was tentatively leaning to view 2. She noted that the result under approach 1 for example 1 (employee bonus with vesting conditions) did not make sense. She noted that in the example the employee has provided the service, the entity has received the service and hence she felt that the liability should be recognised even if there is a chance that entity may end up not paying anything.

Another Board member noted that he thought a mixed approach 2 and 3 would be best and dismissed approach 1. He did not think that approach 1 provided sufficiently relevant information in enough of the examples that the Staff presented. He noted hence the debate should focus on approaches 2 and 3. He analysed the issue in the context of 1) do the IASB want a probabilistic model (in terms of expected cash flows) or 2) do the IASB want a deterministic model that is based on whether an event has occurred. He noted that the approach that would provide the most relevant information would be approach 2. However he noted that the key point should be what the focus is on – the receipt of resources (i.e. contractual rights and obligations) or the actual exchange of resources and consumption of resources. He noted the outcome of the emissions example would be different in each situation and hence this was critical to clarify in the DP.

One Board member noted that this topic was one of the key areas of the Conceptual Framework project. He noted that it was too early for him to decide on an approach and would like to see further work in the area based upon the Board meeting comments. He too agreed that all three approaches should be considered in the DP as it was such an important area. Regarding approach 2 he was concerned that this did not result in a liability for the "emissions trading scheme" example presented by the Staff – this view was also shared by another Board member. He noted that he would like to understand that if approach 2 was adopted what the consequences for emissions would be. He also commented that approach 2 had a probability element within (paragraph 11b) – he commented on the "theoretical possibility" wording. He noted that this wording would imply another probability notion and hence may lead to issues with application. He questioned whether approach 2 was really a definition. He commented that he considered approach 3 to be more principles based and was more of a definition than approach 2. This member also asked where "economic compulsion" fitted within the Staff DP and wondered whether the "theoretical possibility" wording was intended to include this notion.

The Staff noted that paragraph 11b was not intended to be a probability condition. They noted that it was intended for situations where although an entity could make an action that would mean that it would not be required to (for instance) make a payment, this would not actually happen as such a possibility would not have any economic rationale. That being said, many Board members agreed that this application would not be simple to apply in practice and this would still require an element of judgement.

One Board member noted that the focus is on the obligating event – i.e. whether an obligating event has happened or not. He, like another Board member did not want to make a decision on approach 2 or 3. He was concerned that approach 2 did not capture the obligating event – and used emissions trading (as was also used by other Board members) as an example of where this was flawed. The Staff noted that they considered that approach 3 included the principle of an obligating event (i.e. using the past event that has made the entity worse off to determine an obligating event) but agreed with the Board member that this required more work.

One Board member questioned whether approach 3 opened up the possibility of old style “big bath” accounting. The Staff noted that this would not.

Another Board member questioned not including examples in the DP as some other Board members had suggested. He noted that this would be the only way to illustrate the application of the Board conclusions and could be included as an appendix/basis of conclusions to the DP. This view was also shared by another Board member. One Board member was concerned that examples should be included at a standards level rather than in the framework.

One Board member tentatively preferred staying with the current definition of a liability. She noted that approach 2 requires further work before it could be adopted.

A number of Board members tentatively preferred approach 2 but no decisions were made at the meeting. There was not much tentative support from Board members for approach 1.

(Source: http://www.iasplus.com/en/meeting-notes/iasb-february-2013)