



Conceptual Framework: Definition of a liability

Agenda paper 9B

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The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

Existing definition and guidance

Conceptual Framework



Liability = present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.



Obligation = duty or responsibility.



Obligations may be legally enforceable, or arise from normal business practice, custom, desire to maintain good business relations or act in an equitable manner.

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The obligating event is the event that creates a legal or constructive obligation that results in entity having no realistic alternative to settling obligation.



Obligations must exist independently of entity's future actions.

1. Unclear what ‘expected to result in an outflow of economic benefits’ means. Some people interpret it to mean that outflows must be probable.
 - guarantees
2. Unclear whether and when liability exists if obligation is conditional on future events.
 - vesting conditions - thresholds - levies
 - over-recoveries by rate-regulated entities
 - emissions trading schemes - conditional grants
3. Unclear what ‘constructive obligation’ means
4. Unclear whether obligations to stand aside/forgo inflows are liabilities.
 - non-compete agreements - sales of future revenue
 - agricultural set-aside agreements

1. Remove 'expected to result in an outflow' from definition.

'A liability is a present obligation to transfer an economic resource.'

'An obligation does not necessarily lead to an outflow of economic resources in all circumstances. The obligation must exist at the reporting date and be capable of resulting in an outflow (or of reducing an inflow).'

2. Future events

(a) Guarantees and similar obligations – clarify requirements.

Scope: obligations to transfer an economic resource only if a specified future event occurs, and the occurrence of that event is outside the entity's control.

The entity has a present obligation *to stand ready* to transfer resources if the specified event occurs.

If that event occurs, the obligation becomes a simple payable.

2. Future events (continued)

- (b) Requirements conditional on events that the entity could avoid through its future actions – consider further.

Three alternatives:

- i. Entity does not have an obligation if it could avoid the transfer through its future actions. An obligation must be unconditional.
or
- ii. An obligation builds over period in which entity fulfils the final condition.
or
- iii. An obligation might arise before all conditions are satisfied, eg because of economic compulsion, or because it is virtually certain that remaining conditions will be satisfied.

3. Consider how to clarify notion of constructive obligation.
 - i. Remove notion of constructive obligation - restrict liabilities to enforceable obligations

An entity has a liability only if the economic obligation is enforceable by legal or equivalent means.

or

- ii. Retain notion of constructive obligation but define it more clearly

4. Consider whether an obligation to stand aside/forgo inflows is a liability.

i. Yes—the entity has a liability

‘Obligations to transfer resources include obligations to refrain from specific actions that could have resulted in the entity receiving economic resources.’

or

ii. No—the entity has given up rights

Might reflect the (partial) disposal, consumption or impairment of an asset.