STAFF PAPER

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IASB Meeting

Project	Conceptual Framework
Paper topic	Feedback summary: additional guidance to support the asset and liability definitions

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Purpose of paper

1 This paper summarises the feedback received on Section 3 of the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*. Section 3 discusses additional guidance to support the asset and liability definitions.

2 This paper provides a high level summary of the comments received. Where appropriate, we will provide more detailed breakdown of the comments for future meetings.

Overview

3 The main messages were that:

(a) Nearly all respondents agree with the IASB's preliminary view that the definition of a liability should encompass both legally enforceable and constructive obligations.

(b) Most respondents also agree with the IASB's preliminary view that the definition of a liability should encompass at least some obligations that are conditional on the entity's future actions. Of these respondents, many prefer

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an approach that includes obligations that the entity has no practical ability to avoid (‘View 2’). However:

(i) some instead prefer a wider approach that identifies liabilities for all conditional obligations that arise from past events (‘View 3’);

(ii) some suggested modified versions of the approaches discussed in the Discussion Paper; and

(iii) some think that the approaches are not clear, so the IASB needs to develop them further.

(c) Respondents think the IASB needs to revisit the interaction between all ‘in substance’ obligations (whether constructive or conditional). It should seek a unifying principle, consistent terminology and a consistent approach to the role of economic compulsion.

(d) There are mixed views on the suggestion that, for a physical object, the entity’s asset (its economic resource) is not the underlying object, but a right (or set of rights) to obtain the economic benefits generated by the object.

(e) Respondents think that the guidance on executory contracts needs further development.

Structure of paper

4 This paper covers feedback on:

(a) constructive obligations (paragraphs 5-11);

(b) obligations conditional on the entity’s future actions (paragraphs 12-30);

(c) the meaning of ‘economic resource’ (paragraphs 31-36);

(d) the meaning of ‘controlled by the entity’ (paragraphs 37-41);

(e) reporting the substance of contractual rights and obligations (paragraphs 42-46); and

(f) executory contracts (paragraphs 47-52).

Constructive obligations

Background

5 The existing *Conceptual Framework* does not restrict the definition of a liability to legally enforceable obligations. It states that obligations may also arise 'from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner'. IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* identifies 'constructive' obligations, which derive from an entity's actions and may not be legally enforceable.

6 The Discussion Paper discussed a suggestion that the revised *Conceptual Framework* should restrict the definition of a liability to obligations that are enforceable by legal or equivalent means. The IASB's preliminary views were that:

(a) the definition of a liability should continue to encompass both legal and constructive obligations; and

(b) the revised *Conceptual Framework* should include more guidance to help distinguish constructive obligations from economic compulsion.

Summary of feedback

Legal and constructive obligations

7 Most respondents commented on this topic. Nearly all agreed with the IASB's preliminary view that the definition of a liability should continue to encompass both legal and constructive obligations. Some agreed with this view even though they said that they were aware of inconsistencies in practice in the identification of constructive obligations. The main reasons that respondents gave for agreeing with the preliminary view were that:

(a) Recognising constructive obligations provides more relevant information to users of financial statements and a more faithful representation of the substance (or actual economic impact) of an entity's obligations.

(b) Recognition of constructive obligations may lead to better matching of revenues to costs in each financial reporting period, because costs arising from constructive obligations would be recognised in the periods in which the related revenue arises.

8 A few respondents—national standard-setters and individuals—disagreed with the IASB's preliminary view. Those respondents would prefer to restrict the definition of a liability to unconditional, legally enforceable obligations. The respondents argued that if a promise or requirement cannot be enforced against an entity, the entity cannot be obliged to transfer an economic resource, so it cannot have a liability at the reporting date.

Distinguishing constructive obligations from economic compulsion

9 Most respondents supported the suggestion that the *Conceptual Framework* should include more guidance to help identify constructive obligations—and especially to help explain the role of economic compulsion in identifying liabilities. However, some respondents disagreed with aspects of the proposed guidance, or thought that aspects need further explanation or development.

10 In particular, some respondents noted that the Discussion Paper considered separately the issues relating to different types of 'in substance' obligations (ie constructive obligations, obligations conditional on the entity's future actions and non-substantive contractual options). Respondents suggested that the issues in each case are similar and that the IASB needs to ensure that a coherent set of principles underpins the guidance in each of these areas. Specifically, respondents suggested that:

(a) the IASB should seek to identify a single over-arching principle or threshold that could apply to all 'in substance' obligations. Thresholds suggested by respondents included: 'no realistic alternative' (a term supported by some respondents, but opposed by others); 'valid expectation'; 'reasonably rely'; 'no practical ability', 'no reasonable ability', and 'no genuine discretion'.

(b) the IASB should review its conclusions on the role of economic compulsion. Many respondents commented that the guidance is not clear and appears to be inconsistent: the Discussion Paper suggests that economic compulsion does not in itself give rise to constructive obligations, but may play a role:

  (i) in deciding whether an entity has the practical ability to avoid an obligation that is conditional on its future actions;

  (ii) in determining whether a financial instrument is a liability or part of equity; or

  (iii) in measurement.

  Respondents asked the IASB to reconcile the apparent differences. Some suggested that the IASB should reconsider its tentative view that economic compulsion does not play a role in the creation of constructive obligations.

(c) the IASB should consider how the proposed guidance on obligations that are conditional on the entity's future actions would apply in determining whether a financial instrument should be classified as a liability or part of equity.

11 Another topic that generated a significant amount of comment was the discussion of restructuring activities. The Discussion Paper suggested that a constructive obligation must be a duty or responsibility *to another party or parties* and that, as a consequence, an announcement of a restructuring plan would not in itself give rise to a constructive obligation to complete the restructuring activities. A few respondents—European user groups—explicitly supported this aspect of the guidance. However, some others—mainly European preparers and standard-setters—opposed it, arguing that restructuring plans give rise to constructive obligations because the entity has no realistic alternative to implementing the plans. The IASB should take into account the entity's practical inability to avoid the future outflows, as it is doing for obligations that are conditional on the entity's future actions.

Obligations conditional on the entity's future actions

Background

12 The Discussion Paper considered whether a present obligation can exist while any requirement to transfer an economic resource remains conditional on the entity's future actions.

13 The Discussion Paper noted that a 'present' obligation must arise from past events. It suggested that an obligation has arisen from past events if the amount of the future transfer will be determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period.

14 The Discussion Paper went on to consider whether it is sufficient that past events have occurred. It considered three views:

(a) **View 1**—it is *not* sufficient that past events have occurred. The obligation must also be *strictly unconditional*. While any requirement to transfer an economic resource remains conditional on the entity's future actions, the entity does not have a present obligation.

(b) **View 2**—it is *not* sufficient that past events have occurred. The obligation must also be *practically unconditional*. If the requirement to transfer an economic resource is conditional on the entity's future actions, the entity has an obligation if it does not have the practical ability to take the actions necessary to avoid the transfer.

(c) **View 3**—it *is* sufficient that past events have occurred. Whether the resulting obligation is unconditional or conditional on the entity's future actions, the entity no longer has complete discretion to avoid a future transfer.

15 The IASB tentatively rejected View 1, but it did not express a preliminary view in favour of either of View 2 or View 3. It also suggested some situations in which an entity might have no practical ability to avoid future conditions and indicated that it could develop more guidance.

Summary of feedback

General support for rejection of View 1

16 Many respondents commented on this matter. Most of those who commented supported the IASB's tentative rejection of View 1. They agreed that an approach that defines liabilities so narrowly would result in financial statements that omit relevant information about future outflows and fail to reflect the substance of an entity's obligations.

17 Respondents included some preparers that conduct regulated activities. These respondents all opposed View 1 because they think it has been an obstacle to the recognition of regulatory assets and liabilities.

18 A few respondents supported View 1. Most did so on the grounds that, unless a requirement is unconditional, it is avoidable and, hence, not an obligation at the reporting date. A few thought that View 1 would enhance comparability because it has the clearest criteria for identifying liabilities, and so might be preferable if View 2 proves to be too subjective to be operational. A few were also concerned that approaches based on View 2 or View 3 would logically result in liabilities being recognised for any future transfer that the entity does not have the practical ability to avoid. These transfers could include costs that are not currently regarded as present obligations, such as salaries for future employee services, levies on future profits or the costs of repairing or replacing assets essential for the continued operation of the entity's business.[1]

19 Some respondents asked the IASB to consider the consequences of rejecting View 1, especially for IFRIC 21 *Levies*, which applies a similar view and is coming into effect this year.

[1] Paragraph 3.83 of the Discussion Paper suggests that liabilities would not be identified in such situations, because there has not been a 'past event'.

General support for View 2 and View 3

20 Most respondents expressed support for views with outcomes similar to those of View 2 or View 3. Of these respondents:

(a) many supported, or at least expressed a leaning towards, View 2 (see paragraphs 21-23);

(b) some preferred View 3 (see paragraphs 24-25);

(c) some suggested modified versions of the approaches discussed in the Discussion Paper (see paragraph 26); and

(d) some think that the approaches discussed in the Discussion Paper—and in particular the differences in their outcomes—are not clear: the IASB needs to develop them more fully and, in particular, provide more examples in which the outcomes are different.

Support for View 2

21 Many respondents supported, or at least expressed a leaning towards, View 2, ie that an entity has a present obligation if it has no practical ability to avoid a future transfer.

22 They tended to support this view on the grounds that it gives the most faithful representation (or best reports the substance or actual economic impact) of the obligations that an entity cannot avoid—any future transfers that an entity has the practical ability to avoid are not present obligations. Other reasons put forward by some respondents were that:

(a) The additional liabilities that would be identified applying View 3—ie those that the entity has the practical ability to avoid—could be difficult to measure, because the measurement would need to take into account the possibility and economic consequences of the entity taking avoiding action. Some of these outflows could be quite remote. There would be a need for more Standards-level guidance on measurement. There would also be a greater need for recognition criteria to filter out some of the liabilities. If this were not done, the accounting would become unacceptably complex and costly, and could lead to abuse or 'earnings management'. An entity's practical ability to avoid an obligation provides a pragmatic recognition threshold.

(b) View 3 may result in the recognition and subsequent reversal of liabilities that the entity takes action to avoid and so never has to settle.

23 Many of those who supported View 2 nevertheless acknowledged that the interpretation of 'no practical ability' could be subjective and thought that more guidance would be needed.

Support for View 3

24 Some respondents supported View 3. They did so on the grounds that:

(a) View 3 would lead to a more complete recognition of liabilities. Applying a matching or accruals principle, an entity should recognise a liability for all the expected future costs associated with current period income and transactions. If an entity has received goods or services under an exchange transaction, it has an obligation for the future outflows that may be required in exchange.

(b) Uncertainty about the eventual outcome can and should be taken into account in the measurement of the liability, or, if necessary by applying recognition criteria.

(c) The term 'no practical ability to avoid' is highly subjective and would lead to diversity in practice.

25 One respondent suggested that if View 3 is adopted, the IASB should consider using a term that is broader than 'obligation' to define all or some of the resulting liabilities. It may be necessary to define two categories of liabilities: (i) obligations and (ii) other future outflows for expenses (such as levies and bonuses) that have been incurred in earning the income of the accounting period, but that do not necessarily give rise to a 'present obligation' in the ordinary sense of these words.

Suggestions for alternatives

26 Some respondents suggested alternative approaches, which incorporated elements of Views 2 or 3, but modified them. Suggestions included:

(a) explaining the factors that might be considered in determining whether a liability exists, instead of trying to encapsulate these factors into a single definition. The relative importance of different factors might depend on the nature of the obligation and so the final determination should be made in individual Standards.

(b) applying a threshold somewhat lower (or better understood) than ‘no practical ability to avoid’. Suggestions included:

  (i) thresholds based on the likelihood of a future transfer (such as ‘probable’, ‘more likely than not’ or ‘reasonably certain’); and

  (ii) thresholds that express ‘no practical ability to avoid’ in other ways (such as ‘no reasonable ability’).

(c) applying a hybrid approach that gives weight to the effect on the statement of comprehensive income, ie:

  (i) applying View 3 if the identification of a liability also leads to the identification of an expense. In such situations, recognising an expense provides a more useful measure of financial performance. It is more useful to recognise these expenses in the accounting period to which they relate, than to wait until they become an unavoidable commitment.

  (ii) applying View 2 if the identification of a liability has no effect on performance but instead gives rise to the recognition of an asset or to a change in equity. In such situations, View 2 does not provide any less useful information about performance, and provides more useful information about the entity’s financial position.

(d) identifying different principles for exchange transactions and non-exchange/non-reciprocal transactions.

More consideration of the obligating / past event

27 The Discussion Paper suggested that an obligation has arisen from past events if the amount of the future transfer will be determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period.

28 A few respondents challenged this definition of 'past event'. A few thought that there should have been more discussion of why the IASB had chosen it. A few disagreed that the event that determines the amount of the liability is necessarily the event from which a liability arises, arguing that the amount of the liability is a matter of measurement, not definition.

29 Some respondents noted that both View 2 and View 3 rely heavily on identifying the obligating/past event. They suggested that, as a result, more guidance might be needed to accompany the proposed definition of that event. Respondents specifically suggested:

(a) more consideration of the past event for some of the examples discussed in the Discussion Paper. Some respondents specifically referred to government-imposed levies, for which it might be difficult to identify the relevant receipt or activity. Other respondents highlighted the variable lease payments example, for which it could be argued that the obligating event is the future sales, not the past receipt of the right-of-use asset.

(b) clarification that the definition of past event means that future losses and costs of future operations are not present obligations.

(c) consideration of whether and how conclusions about the occurrence of a past event depend on the unit of account (for example, when a lease contains renewal options).

(d) clarification of whether, and in what circumstances, the signing of a contract is a past event for the purposes of identifying obligations. This clarification could be included in guidance on executory contracts.

Other comments

30 A few respondents noted that the Discussion Paper considered the consequences of the entity's future actions purely within the context of liabilities. Respondents suggested that the IASB should assess the approaches by also taking into account their implications for the identification of assets (especially because of the suggestion elsewhere in the Discussion Paper that for every liability of one party, there is an asset of another party). Respondents suggested that there might be a tension between the notions of constructive and conditional obligations on one hand, and the notion of control of an asset on the other hand. Some suggested that the IASB should not use definitions that would lead one party to identify a liability without another party identifying an asset. Others thought that there are some liabilities for which no corresponding asset exists.

Meaning of 'economic resource'

Background

31 The Discussion Paper suggested defining an economic resource as 'a right, or other source of value, that is capable of producing economic benefits'. Paragraphs 3.4-3.15 discussed possible guidance to support this definition.

Summary of feedback

32 Some respondents explicitly welcomed the guidance on the meaning of the term 'economic resource'. Many commented on detailed aspects of the guidance. The main points are set out below.

Rights

33 Many respondents commented on the suggestion that, for a physical object, the economic resource is not the underlying object, but a right (or set of rights) to obtain the economic benefits generated by the object. Some respondents supported this approach, on the grounds that:

(a) The new definitions focus attention on the rights (or other sources of value) that are held by the entity. This may make it easier to conclude, for example, that the entity has a right to use a machine (for example, under a lease) that qualifies as an asset, even if the right falls short of those that the entity would enjoy if it owned the machine.

(b) An asset can represent a bundle of rights and can include both tangible and intangible rights in one arrangement. The asset is not the physical object, and, indeed, there may be not one asset but many. There is a good deal of logic in this view: many transactions seek to carve out or create component rights to financial instruments, intangible assets and even tangible assets.

(c) A move to 'rights' is not without precedent. As long ago as 1907 Charles Ezra

Sprague wrote "every asset may be looked upon either as a 'thing' or a 'right'. Possession of a thing is merely the right to use it and control it".

(d) Viewing an asset as a resource better reflects the changing nature of assets. They may, for example, take the form of a physical asset or a right to use the same item under a lease. In both cases, the service potential would be the same.

34 However, some respondents expressed concerns about treating rights over physical objects as a bundle of rights:

(a) The reference to 'rights' may be premature and there is a need for a detailed conceptual debate on what 'rights' are and which types can be included. The 'component rights' approach has previously caused some challenges in developing new Standards (for example, the recent project on Leases) and in applying existing Standards that follow this approach, particularly when considering the implications for derecognition (for example, accounting for financial instruments).

(b) The change in definition appears to be driven by reverse engineering from conclusions in particular projects, for example the conclusions on 'right of use' in the project on Leases. The IASB should have the freedom to establish guidance on particular topics, without changing the *Conceptual Framework* to meet the requirements of a specific Standard.

(c) The concept of accounting for all physical objects, such as an item of property, plant and equipment, as a right (or bundle of rights) is not consistent with reality. A lease contract does not create an asset or a liability. Economic resources exist on the Earth, but the 'right' to the resources is a human creation.

(d) The 'rights' approach transfers all the accounting stress to considerations of unit of account—the choice of unit of account will be critical in identifying and classifying assets. (Comments relating to unit of account are discussed in more detail in Agenda Paper 10L *Feedback summary: other issues*.)

(e) Plant and equipment is not a right but rather a source of value. When it injects inputs to this source of value and applies processes, the entity is able to develop a business as defined in IFRS 3 *Business Combinations*.

(f) Applying legal concepts such as 'right' makes the definition very difficult to apply.

(g) Defining assets as rights might imply that all assets are intangible.

Other source of value

35 A few respondents commented explicitly on the phrase 'other source of value' in the proposed definition of an economic resource. The main concerns were that:

(a) The phrase 'other source of value' is not defined and does little to place boundaries around the concept. This provides opportunities for wide interpretations in practice.

(b) 'Other source of value' is potentially very wide-ranging, as evidenced by the examples listed in paragraph 3.5(c) of the Discussion Paper (know-how, customer lists, customer and supplier relationships, existing work force, goodwill). It is doubtful whether an entity can control all of these items. In addition, if they do meet the definition of an asset, recognising them may not provide relevant information, or may not pass a cost-benefit test.

(c) If an 'other source of value' is not itself a right, why would it qualify as a basis for the definition of the asset?

Economic benefits

36 The Discussion Paper suggested that debt or equity instruments issued and repurchased by an entity (such as treasury shares) do not meet the definition of an economic resource from the entity's perspective. A few respondents explicitly agreed with this suggestion. However, others disagreed. They argued that, from an economic perspective, there are rights within those instruments that are resources for the entity, because the entity can use them as a means of paying for goods and services. Excluding treasury shares from an entity's recognised assets should be a Standards-level decision rather than a conceptual principle.

Meaning of 'controlled by the entity'

Background

37 The Discussion Paper discussed the meaning of the phrase 'controlled by the entity' in the definition of an asset. It suggested that "an entity controls an economic resource if it has the present ability to direct the use of the economic resource to obtain the economic benefits that flow from it".

Summary of feedback

38 Some respondents explicitly welcomed the addition of a definition of control that could be applied (and if necessary fine-tuned) in individual Standards. A few specifically supported the emphasis on the ability of the entity to obtain the economic benefits.

39 However, a few respondents questioned the need for a definition of control. They argued that the focus on rights in the definition of an economic resource implies the existence of control.

40 Some respondents challenged aspects of the definition or suggested modifications:

(a) The definition of control should state that the entity has the present ability not only to direct the use of the resource, but also to deny others access to the resource.

(b) Different control models exist in current and proposed Standards for financial instruments, revenue recognition, consolidation and leases. The IASB should clarify which control model it is using in the *Conceptual Framework* and explain how that model applies to different transactions and items. The same definition should be used in the *Conceptual Framework* and in individual Standards.

(c) The IASB should reconsider its suggestion to omit 'substantially all' when referring to the entity's ability to obtain economic benefits. The question of whether an entity has substantially all, or all, of the benefits is separate from whether those benefits relate to all or a proportion of the asset. Including 'substantially all' may assist the IASB when it considers whether an asset should be derecognised, and could prevent marginal changes resulting in derecognition.

(d) The guidance should be clearer that there are two conditions in the definition of control, ie that the entity must have both the ability to direct the use of the resource and the ability to obtain the economic benefits.

41 Some respondents asked for more guidance on aspects of the definition of control, such as:

(a) the role of risks and rewards, which some respondents view as central to the analysis of control in practice.

(b) whether, and if so when, an entity controls know-how, customer relationships and an existing work force. These have been the difficult cases in the past. Similarly, can an entity control pension fund assets and pension fund surpluses?

(c) principal-agent situations. The Discussion Paper states that an agent should not recognise assets held on behalf of a principal. It does not adequately address assets—such as goods and services taxes collected on behalf of the government—that the agent may need to recognise. It does not explain whether the principal does have control.

(d) situations in which an entity has the ability to direct the use of an economic resource but may not obtain the same proportion of the economic benefits.

(e) situations in which an entity controls an asset jointly with another entity. More guidance is needed to explain:

    (i) why the entity is regarded as directing the use of its share of the asset, when it cannot direct the use of the asset as a whole; and

    (ii) whether the entity should characterise its asset as a direct interest in the asset that it does not control, or as the right to cash flows from that asset. The characterisation of the entity's asset could affect how it is assessed for control.

Reporting the substance of contractual rights and obligations

Background

42 Several existing Standards give guidance on reporting the substance of contractual rights and obligations. The Discussion Paper suggested adding the general principles underlying that guidance to the *Conceptual Framework*.

43 The Discussion Paper went on to discuss a specific problem that has arisen in practice, namely identifying the role of economic compulsion in the classification of financial instruments, ie in determining whether a financial claim against an entity is a liability or part of equity. The IASB's tentative view was that it might be appropriate to take economic compulsion or significant economic incentives into account, but that it should consider any further requirements or guidance on this matter when developing or revising particular Standards, rather than in the *Conceptual Framework*.

Summary of feedback

44 Respondents who commented on this matter (predominantly Europeans) generally strongly supported both the proposal to include more guidance in the *Conceptual Framework*, and the nature of the guidance proposed.

45 Some respondents argued that the principle of 'substance over form' is a fundamentally important component of faithful representation, which applies to all areas of financial reporting, not only the evaluation of contractual rights and obligations. These respondents suggested that this principle should be added to the discussion of faithful representation in Chapter 3 of the *Conceptual Framework.* Some respondents specifically referred to the statement in the Basis for Conclusions accompanying the existing *Conceptual Framework* that "representing a legal form that differs from the economic substance of the underlying economic phenomenon could not result in a faithful representation". Respondents thought that the IASB should take the opportunity to add this, or a similar, statement to the *Conceptual Framework* itself.

> One other way the concept of enforceability [of IFRSs] can be augmented is to include the concept of economic substance within the Conceptual Framework. This would provide an important basis for regulators to require companies to consider the policies that best portray economic reality of transactions and arrangements. *IOSCO*

46 There was less agreement on the proposal to leave to individual Standards any consideration of the role of economic compulsion in the classification of financial instruments. Although some respondents agreed:

(a) Other respondents—including some users and regulators—thought that there ought to be guiding principles in the *Conceptual Framework*, even if the assessment for specific transactions is left individual Standards. If this were not done, Standards might not take a consistent approach.

(b) Some respondents—again including some users and regulators—thought that economic compulsion *should* always be taken into account in the classification of financial instruments.

> In our view, economic compulsion (a situation where a company has to take a particular course of action in the future, because that action will be so much more economically advantageous than any of the available alternatives) clearly indicates the existence of a liability arising from a constructive obligation. Excluding the existence of economic compulsion alone can cause items that we may regard as liabilities in our analysis to be excluded from the balance sheet, or included as equity. The example given in paragraph 3.104 of the Discussion Paper serves to illustrate this. *Standard & Poors*

(c) A few other respondents thought that economic compulsion should *not* be taken into account, arguing that it is not compatible with the definition of a liability.

Executory contracts

Background

47 Executory contracts are contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent.

48 The Discussion Paper suggested that the IASB could improve the existing *Conceptual Framework* guidance on executory contracts by explaining the nature of the rights and obligations that arise under those contracts and the reasons why such rights and obligations might not be recognised as an asset or a liability.

Summary of feedback

49 Respondents who commented on this part of the Discussion Paper generally welcomed the proposal to improve the *Conceptual Framework* guidance on executory contracts.

50 However, some respondents thought that the proposed guidance focuses too much on rationalising current practice, and that the underlying concepts will have to be clearer and more fully developed if they are to assist in improving financial reporting and help the IASB make rational, consistent choices in individual cases.

51 In particular, respondents suggested that:

(a) The guidance needs to explain *why* rights and obligations arising under executory contracts should be netted. Why should assets and liabilities arising from executory contracts be treated any differently from other assets and liabilities?

(b) It is not sufficient for the *Conceptual Framework* to say that in *some circumstances* there is a single net right or net obligation, whereas in *other circumstances* there are separate rights and obligations, which are sometimes offset. It should clarify the nature of the circumstances in each case. The discussion should cover some of the difficult areas, such as take-or-pay contracts and contracts for which specific performance could be enforced. Clarifying the nature of the assets and liabilities that arise under executory contracts could help provide the answers.

(c) The IASB needs to explain the basic difference or relationship between executory contracts and right-of-use assets received under lease contracts.

(d) If there are circumstances in which an entity has separate (gross) rights and obligations: (i) how the gross assets and liabilities should be classified; (ii) whether the assets and liabilities would be measured and presented gross or net and (iii) the timing and manner of recognition in profit or loss.

52 Several respondents—mainly banks and their representative bodies—expressed concern about an assertion in paragraph 3.112 that "strictly speaking, trade date accounting is inconsistent with the concepts discussed in this Discussion Paper".

(a) Some respondents disagreed with the assertion because they thought it fails to take into account the complexity of the issue and jurisdictional implications. (They argued, for example, that the terms of some trades imply that the transfer of the underlying asset occurs at the trade date, not the settlement date.)

(b) Some respondents thought that trade date accounting is too specific a topic for the *Conceptual Framework*: it should be addressed in the relevant Standards.

(c) Other respondents suggested that, having raised this issue, the IASB now needs to resolve it. If this assertion is to be retained, it needs to be explained more fully: IAS 39 allows trade date accounting and a future change to settlement date accounting would be major change.

> … it seems implausible that a Conceptual Framework can be established that is inconsistent with such a widely used and accepted principle. *Association for Financial Markets in Europe*