

STAFF PAPER

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IASB Meeting

Project	Conceptual Framework
Paper topic	Asset definition and supporting concepts

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INTRODUCTION

Purpose and scope of paper

1. This paper considers comments received on the Exposure Draft *Conceptual Framework for Financial Reporting*. It considers the main comments received on:
 - (a) the proposed definitions of an asset and an economic resource; and
 - (b) the concepts proposed to support those definitions.
2. Some aspects of the proposed definition of an asset are mirrored in the proposed definition of a liability. When respondents commented on those aspects, they were often referring to both definitions. In general, comments that apply to both definitions are discussed in this paper. However, this paper does not discuss comments on the proposal to include both ‘present’ and ‘as a result of past events’ in the definitions of an asset and a liability. Comments on this proposal will be discussed at a future meeting when the Board discusses comments on the liability definition.

Summary of staff recommendations

Definitions of an asset and a liability

3. The staff recommend that, consistently with the proposals in the Exposure Draft:
 - (a) the requirements for ‘expected’ inflows or outflows of economic benefits should be removed from the definitions of an asset and a liability; and
 - (b) the *Conceptual Framework* should instead specify that:
 - (i) to meet the definition of an economic resource and, hence, an asset, a right should have the ‘potential to produce’ economic benefits; and
 - (ii) to meet the definition of a liability, an obligation should have the ‘potential to require’ the entity to transfer an economic resource.

Definition of an economic resource

4. The staff recommend that:
 - (a) consistently with the proposals in the Exposure Draft:
 - (i) the *Conceptual Framework* should define an economic resource as a ‘right’, not as a ‘right or other source of value’;
 - (ii) the *Conceptual Framework* should include a concept that an economic resource must have the potential to produce economic benefits beyond those available to all other parties (as proposed in paragraph 4.8(c) of the Exposure Draft); and
 - (iii) this concept should be applied to explain why rights that are identical to those held by all other parties are not economic resources (as proposed in paragraph 4.10 of the Exposure Draft).
 - (b) the *Conceptual Framework* should not contain any more discussion of particular types of right than was proposed in the Exposure Draft.

Concepts to explain the meaning of ‘controlled by the entity’

5. The staff recommend that the Board does not make any major changes to the concepts proposed in the Exposure Draft to explain the phrase ‘controlled by the entity’ in the definition of an asset.

Content and structure of paper

6. This paper first provides background information, which includes:
 - (a) a high-level summary of the feedback received on the proposed definitions of an asset and an economic resource—see paragraphs 8–11, and
 - (b) a reminder of the decisions the Board has already taken in response to that feedback—see paragraphs 12–15.
7. The paper goes on to discuss the main comments received on the proposals:
 - (a) to replace ‘expected’ with ‘potential to produce’ and ‘potential to require’—Topic 1, paragraphs 16-30;
 - (b) to define an asset as a ‘right’—Topic 2, paragraphs 31–56; and
 - (c) to add concepts explaining the phrase ‘controlled by the entity’ in the definition of an asset—Topic 3, paragraphs 57–65.

BACKGROUND

High-level summary of feedback

8. Many respondents commented on the proposed definitions of an asset and an economic resource. And with the exception of preparers of financial statements, most of those expressing an overall view broadly agreed with the proposed definitions and with the reasons for the changes from the existing definition. Those broadly agreeing included most of the regulators, standard-setters, accountancy bodies, accounting firms, academics and individuals expressing an overall view.
9. The views of preparers of financial statements were more evenly divided between those who broadly agreed and those who broadly disagreed with the proposed definitions. Few users of financial statements commented on the asset and liability definitions and those who did comment were divided in their views.
10. Of the respondents expressing overall disagreement, the main concern of most was a proposal that would affect the definitions of both an asset and a liability. This was the proposal to replace the requirement for ‘expected’ inflows (or outflows) of economic benefits with a requirement for the ‘potential to produce’ economic benefits (or ‘potential to require’ the transfer of an economic resource). Consequently, this proposal is the first to be discussed in this paper—see paragraphs 16–30.
11. Some (predominantly European) respondents suggested that the Board should conduct further work to test the proposed definitions of both an asset and a liability.

Subsequent Board decisions

12. In May 2016, the Board decided that, in analysing the effects of the *Conceptual Framework*, the staff would be asked to perform a more extensive analysis of the effects that the proposed definitions of an asset and a liability—and the concepts supporting those definitions—could have for current projects.

13. The staff think that the most significant effects would result from the concepts proposed to support the definition of a *liability*. Accordingly, we will present the main effects analysis to the Board alongside papers discussing comments received on those concepts.
14. The staff think that the effects of the proposed changes to the definition of an *asset* and supporting concepts will be less significant. This is not because the proposed changes are themselves insignificant. Rather, it is because those changes reflect concepts that the Board has established in other projects and is already applying in IFRS Standards. The proposed changes to the *Conceptual Framework* would update the *Conceptual Framework* to be consistent with those Standards and the Board's current conceptual thinking.
15. Each section of this paper includes a staff analysis of the effects for current and future standard-setting of the aspect of the proposed definitions discussed in that section.

TOPIC 1—REPLACING 'EXPECTED' WITH 'POTENTIAL TO PRODUCE' AND 'POTENTIAL TO REQUIRE'

16. This section discusses comments on the proposal to replace the requirement for 'expected' inflows (or outflows) of economic benefits with a requirement for the 'potential to produce' economic benefits (or 'potential to require' the transfer of an economic resource).

Exposure Draft proposals (paragraphs 4.4, 4.13, 4.27 and BC4.11–BC4.17)

17. To see how the Exposure Draft proposed to implement this change, you need to compare the existing and proposed definitions, and take into account one of the concepts proposed to support the definition of a liability:

	Existing definition	Proposed definition ¹	Proposed supporting concept
Asset (of an entity)	A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.	A present economic resource controlled by the entity as a result of past events.	
Economic resource	[None]	A right that has the potential to produce economic benefits.	
Liability (of an entity)	A 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.	A present obligation of the entity to transfer an economic resource as a result of past events.	An entity's obligation to transfer an economic resource must have the potential to require the entity to transfer an economic resource to another party. ²

18. The purpose of replacing ‘expected’ with ‘potential to produce’ and ‘potential to require’ would be to clarify the definitions. Some people interpret the term ‘expected’ to mean that an item can be an asset or a liability only if the probability of future inflows or outflows exceeds some minimum threshold. However, such an interpretation has not been applied by the Board in setting recent IFRS Standards.
19. The references to ‘potential to produce’ and ‘potential to require’ are not intended to establish any minimum probability that must be present. They are intended to indicate only that the economic resource or obligation already exists, and that there is at least one circumstance in which it will produce economic benefits or require the entity to transfer an economic resource.³

¹ Exposure Draft, paragraph 4.4.

² Exposure Draft, paragraph 4.27.

³ Exposure Draft, paragraphs 4.13 and 4.27.

20. Although the proposals in the Exposure Draft would not set a minimum probability threshold, this does not necessarily mean that all rights and obligations with a low probability of future inflows or outflows would be recognised as assets or liabilities in financial statements. As discussed further in Agenda Paper 10C *Conceptual Framework—Recognition*, a low probability of future inflows or outflows would be one of the factors taken into consideration in decisions about recognition.
21. The proposal to replace ‘expected’ with ‘potential to produce’ and ‘potential to require’ had been suggested in the Discussion Paper that preceded the Exposure Draft.⁴ Some respondents to the Discussion Paper had opposed the change, arguing that:
- (a) the change would result in definitions of assets and liabilities that were too broad. Users and preparers of financial statements do not regard an item as an asset or (a liability) if no inflows (or outflows) are expected. Benefits must be reasonably possible.
 - (b) broadening the definitions would considerably widen the range of items that are identified as assets and liabilities. This may lead to:
 - (i) pressure to identify every possible asset and liability, imposing a significant operational burden, for little benefit if ultimately the asset or the liability is not recognised or is measured at nil;
 - (ii) recognition of more items that are uncertain, improbable or hard to measure, unless the recognition criteria are made more robust; and
 - (iii) pressure for irrelevant disclosure about unrecognised assets and liabilities for which inflows or outflows are unlikely.

⁴ Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*, July 2013. The Discussion Paper used the term ‘capable’ rather than ‘potential’. However, the intended meaning was the same. The reasons for using ‘potential’ rather than ‘capable’ in the Exposure Draft are explained in paragraph BC4.16 of the Basis for Conclusions accompanying the Exposure Draft. Only one respondent to the Exposure Draft (Shell) commented on the change in terminology.

22. The Board considered these concerns when it was developing the Exposure Draft⁵ but decided to proceed with the proposal to replace ‘expected’ with ‘potential to produce’ and ‘potential to require’. As it explained in the Basis for Conclusions accompanying the Exposure Draft:
- (a) many respondents to the Discussion Paper had supported the change, expressing views that:
 - (i) removing ‘expected’ appropriately focuses the definition on the resource. To retain a notion of expected or probable outflows or inflows would exclude many items that are clearly assets and liabilities, such as written and purchased options, stand-ready obligations and insurance contracts.
 - (ii) the notion of expected flows is unhelpful, because interpretations of this term can vary widely and are often tied to a notion of a threshold level of probability. Uncertainty is best dealt with in recognition criteria or measurement, instead of within the definitions.
 - (iii) removing the requirement for expected flows would not, as suggested by some, require considerable effort to identify assets and liabilities that will not be recognised. In practice, potential recognition will be in focus from the very beginning.
 - (iv) a broad definition of an asset may result in the disclosure of useful information about items for which recognition is not appropriate.
 - (b) the Board acknowledged that many respondents to the Discussion Paper had significant concerns about recognising assets or liabilities if the probability of an inflow or outflow of benefits was low. However, it believed that those concerns were best addressed in setting recognition criteria.
 - (c) the Board did not think that replacing ‘expected’ with ‘potential to produce’ and ‘potential to require’ would make the definitions either broader or narrower than the existing definitions, as the Board had been applying those definitions in practice for several years.⁶

⁵ Exposure Draft, Basis for Conclusions, paragraph BC4.12.

⁶ Exposure Draft, Basis for Conclusions, paragraphs BC4.14-BC4.17.

Effects on current and future standard-setting

23. The staff think that replacing ‘expected’ with ‘potential to produce’ and ‘potential to require’ would have little, if any, effect on the decisions the Board makes in current or future projects:
- (a) as explained in paragraph 18, the purpose of the change would be to clarify the existing definitions, ie to clarify that the probability of future inflows or outflows does not need to exceed some minimum threshold. The Board has interpreted the existing definitions in this way in past projects, and is likely to continue to do so whether or not it clarifies the definitions in the *Conceptual Framework*.
 - (b) some IFRS Standards prohibit recognition of items for which future inflows or outflows are not probable. Examples include IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 38 *Intangible Assets*. However, those Standards do not rely on an argument that such items fail to meet the definition of an asset or a liability. Instead, those Standards include probable inflows or outflows as a criterion for recognition.⁷ And, as discussed further in Agenda Paper 10C *Conceptual Framework—Recognition*, the proposed concepts for recognition would continue to identify a low probability of future inflows or outflows as one of the factors that would be taken into consideration in recognition decisions.
24. The staff think that, even if this change to the definitions has little effect on future Board decisions, it could positively affect the standard-setting process. The Board should be able to have a more effective dialogue with stakeholders on future projects if the *Conceptual Framework* is expressed clearly and reflects the Board's own understanding.

⁷ Paragraph 14(b) of IAS 37, and paragraph 21(a) of IAS 38.

Summary of feedback

25. As noted in paragraphs 9–10, some respondents to the Exposure Draft disagreed with the proposed definitions of an asset and a liability, and the main concern of most of those respondents was the proposal to replace ‘expected’ with ‘potential to produce’ and ‘potential to require’.
26. Those respondents expressed concerns similar to the concerns expressed by some respondents to the Discussion Paper. They commented that:
- (a) the change would increase the population of items identified as assets and liabilities and, in combination with the proposed changes to the recognition criteria could lead to more low-probability items being recognised in financial statements, making those statements less useful.
 - (b) even if many of those assets were not recognised in financial statements, the need to identify the assets and then consider the recognition criteria would add complexity and inefficiency to financial reporting.
 - (c) the proposed definitions would be inconsistent with the definitions in IAS 37 and IAS 38. (The definitions in those IFRS Standards are the existing *Conceptual Framework* definitions.)
 - (d) the changes are unnecessary. The existing definitions are well understood and do not lead to flawed results.
27. Of the respondents who broadly agreed with the proposal to replace ‘expected’ with ‘potential to produce’ and ‘potential to require’, some commented on the interaction between this proposal and the proposed concepts for recognition:
- (a) a few respondents simply highlighted the need to consider the definitions in conjunction with the proposed concepts on recognition—with the recognition criteria becoming more important to prevent the inappropriate recognition of some assets and liabilities.

- (b) a few respondents suggested that, to avoid misunderstandings, the *Conceptual Framework* should more clearly emphasise that not all items that meet the definitions of an asset and a liability are necessarily recognised in financial statements. Some specifically suggested adding a cross-reference from paragraph 4.13 of the Exposure Draft to the relevant concepts on recognition (paragraphs 5.17-5.19).
- (c) a few respondents said that their support for the definitions depended on the Board withdrawing its proposal to remove the ‘probability’ recognition criterion from the *Conceptual Framework*. Agenda Paper 10C *Conceptual Framework—Recognition* contains further discussion of the comments on that proposal.

Staff analysis

28. The staff think that, despite the concerns expressed by some respondents, the Board should confirm its proposal to replace ‘expected’ with ‘potential to produce’ and ‘potential to require’. Our reasons are that:
- (a) many respondents broadly supported the proposed changes to the definitions of an asset and a liability (see paragraph 8). Implicit in that overall support is support for replacing ‘expected’ with ‘potential to produce’ and ‘potential to require’.
 - (b) respondents who expressed concerns about this proposal did not disagree with the *concept* that items with a low probability of inflows or outflows meet the definition of an asset or a liability. Their main concern was the possibility that more of these items would be recognised as assets and liabilities in financial statements. The staff think that these concerns could be addressed by considering whether the proposed recognition concepts provide sufficient direction on the recognition of items with a low probability of inflows or outflows of economic benefits. This question is considered in Agenda Paper 10C *Conceptual Framework—Recognition*.

- (c) respondents did not raise significant new concerns beyond those already considered by the Board when it was developing the Exposure Draft.
29. The staff agree with the suggestion that it would be helpful to note in Chapter 4 of the *Conceptual Framework* that not all items meeting the definition of an asset or a liability would necessarily be recognised in financial statements (see paragraph 27(b)). We can pick up this suggestion in drafting.

Staff recommendation

30. The staff recommend that, consistently with the proposals in the Exposure Draft:
- (a) the requirements for ‘expected’ inflows or outflows of economic benefits should be removed from the definitions of an asset and a liability; and
 - (b) the *Conceptual Framework* should instead specify that:
 - (i) to meet the definition of an economic resource and, hence, an asset, a right should have the ‘potential to produce’ economic benefits; and
 - (ii) to meet the definition of a liability, an obligation should have the ‘potential to require’ the entity to transfer an economic resource.

Question 1—Replacing ‘expected’ with ‘potential to produce’ and ‘potential to require’

Do you agree with the staff recommendation in paragraph 30?

TOPIC 2—DEFINING AN ASSET AS A ‘RIGHT’

31. This section considers comments on:
- (a) the proposal to define an asset as a ‘right’; and
 - (b) the concepts proposed to explain the meaning of ‘right’.

Exposure Draft proposals (paragraphs 4.4, 4.8–4.12 and BC4.29-BC4.39)

32. The existing *Conceptual Framework* defines an asset as ‘a resource controlled by the entity...’. The Exposure Draft proposed to retain this aspect of the existing definition. However, it proposed to change the term ‘resource’ to ‘economic resource’ (consistently with the terminology now in Chapters 1 and 2 of the *Conceptual Framework*), and to define an economic resource (and, hence, an asset) as a ‘right’.
33. The Discussion Paper had proposed to define an economic resource as a ‘right, or other source of value,...’. The Board had included references to ‘other sources of value’ because of concerns that the term ‘right’ might not capture items, such as know-how, when an entity controls them by having the ability to keep them secret from other parties.
34. However, some respondents to the Discussion Paper commented that the phrase ‘other source of value’ did little to place boundaries around the concept of an economic resource and would permit wide interpretations in practice. Acknowledging these comments, the Board decided that the notion of an ‘other source of value’ was too vague to be useful. Accordingly, the Exposure Draft proposed to omit the phrase ‘other source of value’, and instead proposed to explain that the notion of a ‘right’ encompasses not only legal rights, but also access that an entity controls in other ways, for example, by having the ability to keep know-how secret. The proposed explanation of that concept in paragraph 4.20 of the Exposure Draft built on material that is already in paragraph 4.12 of the existing *Conceptual Framework*.

35. The Exposure Draft also included examples of rights that would constitute economic resources:

- 4.8 Rights that constitute economic resources may take the following forms:
- (a) rights established by contract, legislation or similar means such as [list of examples];
 - (b) rights arising from a constructive obligation of another party (see paragraph 4.34); and
 - (c) other rights that give the entity the potential to receive future economic benefits that are not available to all other parties, for example, rights to the economic benefits that may be produced by items such as know-how not in the public domain or customer or supplier relationships (see paragraph 4.20).

Effects on current and future standard-setting

36. The focus on rights would not be new. The Board and IFRS Interpretations Committee have focused on rights in developing a number of IFRS Standards and Interpretations. Focusing on rights has proved to be useful not only in identifying *whether* an entity has an asset, but also in articulating precisely *what* the asset is and hence how it should be accounted for. For example:

- (a) focusing on rights in developing IFRS 16 *Leases* helped the Board reach a conclusion that a lessee should account for a leased asset in the same way as it would account for an asset that it owned outright. Whether a lessee leases the underlying asset or purchases it outright, the main right it obtains is the right of use of the underlying asset.
- (b) focusing on rights in developing IFRIC 12 *Service Concession Arrangements* helped the Interpretations Committee reach a consensus on how operators of service concessions should account for the infrastructure that they build and operate (and may or may not have legal title to). The Interpretations Committee noted that, for contracts within the scope of IFRIC 12, the grantor of the concession—not the operator—controls the right of use of the infrastructure. Hence, although the operator obtains benefits from the

infrastructure, those benefits result from a right of access to provide services, not a right of use. Accordingly, the operator does not hold, or have a lease of, the infrastructure and should not identify the infrastructure as its property, plant and equipment.

37. The staff think that the focus on rights in the *Conceptual Framework* could have the most significant effects for future projects in which it is important to identify not only *whether* an entity has an asset, but also to be able to articulate precisely *what* the asset is. Examples could be:
- (a) projects that raise issues similar to those raised by leases and service concession arrangements; and
 - (b) projects that require the Board or Interpretations Committee to decide whether particular sources of economic benefits are separately identifiable assets or contribute to the value of other assets. For example, a focus on rights could help the Board if it were to consider in future the circumstances in which different sources of competitive advantage (such as particular customer relationships or assembled workforces) could be identified separately from goodwill. A first step could be to identify the right or rights that constitute the asset that is called goodwill⁸. A subsequent step could be to identify whether the particular competitive advantage under consideration arises from any rights other than the rights that constitute goodwill.

Issues raised by respondents

38. A few respondents opposed the proposal to identify rights over physical objects, rather than the underlying objects themselves, as the entity's assets. They argued that such an approach:

⁸ For practical reasons, goodwill is measured as a residual. As a result it includes some components ('core goodwill') that meet the definition of an asset, and other components that do not meet that definition. Paragraphs BC313–BC323 of the Basis for Conclusions on IFRS 3 *Business Combinations* explain the nature of each component of goodwill.

- (a) would bring with it additional complexity;
 - (b) contradicts the concept of ‘substance over form’—in the view of one respondent the economic reality is that an entity has tangible and intangible assets, not packages of rights; or
 - (c) could have unintended consequences, such as unnecessarily small units of account.
39. However, most respondents did not comment on proposal to define an asset as a right, possibly because the focus on rights has already become established in IFRS literature.
40. The most significant comments received on the discussion of rights were:
- (a) concerns about the omission of ‘or other source of value’ (paragraphs 41–45);
 - (b) disagreement with the analysis of rights of access to public goods (paragraphs 46–52); and
 - (c) requests for additional discussion of intangible assets (paragraphs 53–56).

Omission of ‘or other source of value’

Summary of feedback

41. Some respondents commented on the omission of ‘or other source of value’ from the proposed definition of an economic resource:
- (a) a few respondents explicitly agreed with this omission, agreeing with the Board that the phrase ‘other source of value’ is too vague.
 - (b) a few respondents disagreed with the omission. They argued that the common understanding of the term ‘right’ does not encompass items such as know-how and (in particular) goodwill. The respondents suggested that these items should be within the definition of asset, and that it would be better to broaden the definition of ‘economic resource’ than to contrive to interpret the term ‘right’ beyond its commonly understood meaning.

Staff analysis

42. The staff agree with respondents to the Discussion Paper who argued that ‘other source of value’ would do little to place boundaries around the concept of an economic resource and would permit wide interpretations in practice.
43. Furthermore, we think that the term ‘right’ is broad enough to capture all economic resources that should be identified as assets—including items such as know-how and goodwill:
- (a) the right underpinning know-how could be described as the right to use that know-how, which is controlled by keeping the know-how secret.
 - (b) there may be debate about how to describe the rights that constitute goodwill. But we think that there are a variety of ways in which some of those rights could be described. For example, some might argue that:
 - (i) goodwill could be attributed to the right to receive and retain the economic benefits produced by a business beyond the economic benefits produced by the identifiable assets currently held. A functioning business is more than the sum of the separately identifiable assets (other than goodwill). An entity acquiring the business would typically have to pay more than the sum of the prices it would have to pay for those assets.
 - (ii) for an entity that has assembled a group of assets that it uses together to generate economic benefits, goodwill may be attributed to the right to use all of these assets together. The value of the entity’s goodwill could reflect the additional economic benefits that the entity could gain from using those assets together, beyond those that could be gained from using the assets individually.
 - (iii) for an entity operating in a particular market, goodwill may be attributed to the right to participate in that market. The value of that right could reflect the various competitive advantages that the entity has developed in that market and that cannot be attributed to any other (more specific) right.

Staff recommendation

44. For the reasons in paragraphs 42–43, the staff recommend that, consistently with the proposal in the Exposure Draft, the *Conceptual Framework* should define an economic resource as a ‘right’, not as a ‘right or other source of value’.
45. A question asking Board members whether they agree follows paragraph 56.

Rights of access to public goods

Exposure Draft proposals

46. At the end of the section explaining the meaning of the term ‘right’, the Exposure Draft proposed that:

4.10 If an entity has rights that are identical to those held by all other parties, those rights do not give the entity the potential to receive economic benefits beyond those available to all other parties. For example, rights of access to public goods, such as roads, or knowledge that is in the public domain are not economic resources for the entity if similar rights are available to all parties without significant cost.

Summary of feedback

47. Some respondents, including standard-setters and an accounting firm, said that, although they agreed with the conclusion that rights of access to public goods do not meet the definition of an asset, they disagreed with the reasons given in the Exposure Draft. They suggested that rights of access to public goods are economic resources, but that the rights do not meet the definition of assets because the economic resources are not controlled by the entity. The respondents recommended that the discussion of public goods should be moved from the discussion of ‘rights’ to the discussion of ‘control’.

Staff analysis

48. Paragraph 4.10 was included in the Exposure Draft to signal that defining an asset as a right would not result in entities having to identify and recognise assets for the potentially infinite array of rights that held by all parties. However, the Board did not debate at length the concept that it should apply to support that conclusion.
49. The staff think that there are at least three possible concepts that could be applied:
- (a) *the concept proposed in the Exposure Draft.* Rights that are held by all parties are not economic resources. Economic resources are defined as rights that have the potential to produce economic benefits. This should be interpreted to mean economic benefits that are not available to all other parties.
 - (b) *the concept suggested by some respondents.* Rights that are held by all parties are economic resources because they have the potential to produce economic benefits. (The definition of an economic resource does not specify that those benefits must be greater than the benefits that are available to all other parties). However, those economic resources are not assets of the entity, because the rights are not controlled by the entity: the entity cannot deny access to other parties.
 - (c) *a third possible concept.* Rights that are held by all parties are economic resources (because they have the potential to produce economic benefits) and they are controlled by the entity.* Hence, they are assets. However, they are unlikely to have significant value—they are freely available—so would not be recognised in financial statements.

* The argument would be that, although the entity does not control the use of the underlying public good (so would not recognise the public good itself as its asset), it does control whatever right of access it holds to that public good. It can decide how to use its right. The fact that any other party can also obtain identical rights of access, or that the right might not be transferrable, does not mean that the entity does not control its own right.

50. There is general agreement that entities should not have to identify and recognise assets for the potentially infinite array of rights that are held by all parties and do not have the potential to produce benefits for the entity beyond those available to all other parties. Such an outcome could be achieved by applying any one of at least three different concepts, as described above. The Exposure Draft proposed to apply the first of those concepts, ie to restrict the definition of an economic resource to rights that have the potential to produce economic benefits ‘that are not available to all other parties’. The staff think that this is a practical way of achieving the desired outcome.

Staff recommendation

51. Accordingly, the staff recommend that, consistently with the proposals in the Exposure Draft:
- (a) the *Conceptual Framework* should include a concept that an economic resource must have the potential to produce economic benefits beyond those available to all other parties (as proposed in paragraph 4.8(c) of the Exposure Draft); and
 - (b) this concept should be applied to explain why rights that are identical to those held by all other parties are not economic resources (as proposed in paragraph 4.10 of the Exposure Draft).
52. A question asking Board members whether they agree follows paragraph 56.

Requests for additional discussion of intangible assets

Summary of feedback

53. Commenting on the list of examples of rights in paragraph 4.8 of the Exposure Draft:
- (a) some respondents asked for more discussion of whether and why particular items would meet the definition of ‘right’, suggesting that such clarification was necessary to understand the intended scope of the term ‘right’ and the differences between existing IFRS requirements and the *Conceptual Framework* proposals. Items for which more clarification was requested included:

- (i) goodwill. Respondents noted that some of the discussion in the Basis for Conclusions implies that the Board is not intending to narrow the definition of an asset to exclude goodwill. But several respondents—including two accounting firms—suggested that a more explicit statement in the *Conceptual Framework* is important to avoid uncertainty.
 - (ii) the nature of the rights (if any) that an entity might acquire when it incurs some types of costs that are essential to conduct operations or to generate future inflows, such as costs incurred to start a business (including costs required to comply with jurisdictional requirements), exploration costs, or research and development costs.
 - (iii) the nature of the rights (if any) that an entity might control through competitive advantages, such as comparatively stronger bargaining power, long-term relationships with customers and comparatively higher marketing, advertising and development activities.
 - (iv) conditional rights, such as rights that are pending approval by an authority.
- (b) the European Accounting Association said it did not agree that customer and supplier relationships are assets. It argued that any future economic benefits are not controlled by the entity: they give the hope, rather than the right, to transact future business. That respondent further argued that customer lists are different because they could be sold and provide the ability to carry out a targeted marketing exercise.
54. Two standard-setters suggested that the *Conceptual Framework* needs more discussion of other implications of assets being viewed as a set of rights. Specifically:
- (a) the New Zealand Accounting Standards Board asked for more clarity about the nature of an entity's rights if the entity has joint control of a physical object, or full control of a physical object but only a minority interest in the economic benefits flowing from it. The Australian Accounting Standards Board asked

the Board to clarify how an economic resource that is subject to joint control meets the definition of an asset.

- (b) the same two standard-setters asked for further discussion of the ways in which an entity's rights can change, for example after a securitisation, when a sale and leaseback has occurred, when a component of a physical asset is replaced, or when an entity loses outright control of a physical object but continues to have joint control of that object. In particular, the standard-setters suggested adding concepts distinguishing:
 - (i) situations in which an entity has disposed of some of its rights and retained others (which one standard-setter suggested might occur if an entity leases the right to use an asset to another party for a specified period only); from
 - (ii) situations in which an entity has exchanged one bundle of rights for a different bundle of rights (which the standard-setter suggested might occur if the entity transfers physical assets to a joint arrangement or associate).

Staff analysis and recommendation

55. The staff think that the *Conceptual Framework* should not discuss:
- (a) whether and why particular items (such as goodwill, customer relationships etc) meet the definition of a right;
 - (b) the nature of the rights held by an entity that has joint control of a physical object; or
 - (c) how rights are changed by events such as securitisations, sale and leaseback transactions, loss of outright control etc.

We think that decisions about specific items and transactions should be taken when the Board is developing IFRS Standards for those items and transactions.

56. Accordingly, the staff recommend that the revised *Conceptual Framework* should not contain any more discussion of particular types of right than was proposed in the Exposure Draft.

Questions for the Board

Question 2—Defining an asset as a ‘right’

Do you agree that:

- (a) consistently with the proposal in the Exposure Draft, the *Conceptual Framework* should define an economic resource as a ‘right’, not as a ‘right or other source of value’?

See paragraph 44

- (b) consistently with the proposals in the Exposure Draft:

- the *Conceptual Framework* should include a concept that an economic resource must have the potential to produce economic benefits beyond those available to all other parties (as proposed in paragraph 4.8(c) of the Exposure Draft); and
- this concept should be applied to explain why rights that are identical to those held by all other parties are not economic resources (as proposed in paragraph 4.10 of the Exposure Draft)?

See paragraph 51

- (b) the *Conceptual Framework* should not contain any more discussion of particular types of right than was proposed in the Exposure Draft?

See paragraph 56

TOPIC 3—CONCEPTS EXPLAINING ‘CONTROLLED BY THE ENTITY’

57. This section discusses the feedback on the concepts proposed in the Exposure Draft to explain the phrase ‘controlled by the entity’ in the definition of an asset.

Exposure Draft proposals (paragraphs 4.17-4.23 and BC4.40-BC4.44)

58. Both the existing and proposed definitions of an asset specify that the economic resource must be ‘controlled by the entity’. The Exposure Draft proposed to add concepts to the *Conceptual Framework* to explain better the notion of ‘control’.

59. The proposed concepts included:

(a) a definition of control:

4.18 An entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that flow from it.

(b) an observation that assessing control can help to identify the entity’s economic resource:

4.17 ... For example, an entity may have a right to a proportionate share in a property without controlling the entire property. In such cases, the entity’s asset is its share in the property, which it controls, not the property itself, which it does not.

(c) clarification that, although control usually arises from legal rights, control can also arise if an entity has other means of preventing other parties from directing the use of an economic resource and obtaining the benefits from it. For example, an entity may control know-how by having the ability to keep the know-how secret.

(d) clarification that having the risks and rewards of ownership may be an indicator of control:

4.22 Having exposure to significant variations in the amount of the economic benefits produced by an economic resource may indicate that the entity controls the resource. However, it is only one factor to consider in the overall assessment of control.

- (e) a statement that, if an entity holds an economic resource as an agent, the entity does not control the economic resource and does not have an asset.

Effects on current and future standard-setting

60. The proposed concepts on control have been established by the Board in other projects and have already been applied in IFRS Standards:
- (a) the proposed definition of control is consistent with the definitions applied to assets in IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*;⁹
 - (b) the characterisation of ‘risks and rewards’ as a possible indicator of control (but only one of several factors to consider in the overall assessment) is consistent with the guidance in IFRS 15;¹⁰ and
 - (c) the notion of control of economic resources as the factor that distinguishes principals from agents is consistent with the requirements of IFRS 15.¹¹
61. Because the proposed concepts on control are consistent with concepts that the Board has already started to apply in developing IFRS Standards, the staff do not think that including those concepts in the *Conceptual Framework* will have major implications for current projects. We think that the main effect of including the concepts in the *Conceptual Framework* will be to help ensure that the Board continues to apply the same concepts in future projects as it has done in its recent IFRS Standards, thereby helping to promote consistency between Standards.

⁹ Paragraph 33 of IFRS 15, paragraph B9 of IFRS 16.

¹⁰ Paragraph 38(d) of IFRS 15.

¹¹ Paragraphs B34-B38 of IFRS 15.

Summary of feedback and staff analysis

62. Possibly because the proposed concepts on control are not new, there was relatively little feedback on them: neither the proposed definition of control nor any of the supporting concepts generated widespread comment.
63. The more significant comments that were received are listed below, along with a staff analysis of each comment:

Topic	Feedback	Staff analysis
<p>(a)</p> <p>Control in definition rather than recognition criteria</p>	<p>A few respondents—mainly from Europe and Australia—disagreed that the requirement for a resource to be ‘controlled by the entity’ should be in the definition of an asset. Those respondents thought that assets and liabilities should be defined independently of the entity that controlled them, and that control should instead be a criterion for recognition.</p>	<p>The Board considered this suggestion when it was developing the Exposure Draft. However, it rejected the suggestion on the grounds that:</p> <ul style="list-style-type: none"> • there are no problems in practice that would be solved by moving the requirement for control from the asset definition to recognition criteria. The population of assets recognised would be unlikely to change, and • moving the requirement for control would add complexity to the recognition criteria.¹² <p>Respondents to the Exposure Draft did not put forward any new arguments to challenge the Board’s previous conclusion.</p>

¹² Exposure Draft, Basis for Conclusions, paragraph BC4.44(b).

Topic	Feedback	Staff analysis
<p>(b) Definition of control</p>	<p>A few respondents from the Asia-Oceania region noted that the definition of control proposed in the Exposure Draft differs from the definition of control applied in IFRS10 <i>Consolidated Financial Statements</i> in relation to control of investees. They suggested either that the definitions should be aligned or that the Basis for Conclusions should explain how the definitions interact.</p>	<p>Chapter 4 of the <i>Conceptual Framework</i> defines control in the context of control of an economic resource, and is closely aligned with the definitions in IFRS 15 and IFRS 16 (which also define control in the context of an economic resource).</p> <p>The definition in IFRS 10 is different. However, the staff think that:</p> <ul style="list-style-type: none"> • there are no fundamental inconsistencies—like the definitions in IFRS 15 and IFRS 16 and proposed for the <i>Conceptual Framework</i>, IFRS 10 identifies two criteria for control—an ‘ability to direct’ criterion and a ‘benefits’ criterion. • the way in which these two criteria are articulated is necessarily different in IFRS 10, which is discussing control of an entity, not control of an individual asset.
<p>(c) Broader discussion of control</p>	<p>Mazars noted that the boundary of the reporting entity (Chapter 3) and the asset definition (Chapter 4) both rely on a concept of control. It suggested that the discussion of the meaning of control should not be confined to control in the context of the asset definition. It suggested that the discussion should be broader, and included in Chapter 2, alongside the discussion of ‘substance over form’.</p>	<p>Control was discussed in two different contexts in the Exposure Draft, and in those different contexts, the discussion focused on different aspects of control. There is no significant duplication between the two chapters. So we think that the benefits of having each discussion within the chapter to which it relates exceed the benefits of discussing all aspects of control in one place.</p>

Topic	Feedback	Staff analysis
<p>(d)</p> <p>Ability to obtain economic benefits</p>	<p>An academic from Swinburne University noted that to control an economic resource, an entity must have the ability to obtain the economic benefits that flow from the resource. The respondent suggested that, for public sector assets, the economic benefits do not necessarily flow to the owner (the government). They may flow to the public.</p>	<p>The Exposure Draft listed various types of economic benefits that could be produced by an economic resource. Those benefits included ‘using the economic resource singly or in combination with other economic resources to produce goods or provide services’.¹³</p> <p>So we think that the concepts are clear that, even if members of the public are the ultimate beneficiaries of public services, the public sector entities that provide the services obtain economic benefits from the assets they use to enable them to provide those services.</p>
<p>(e)</p> <p>Risks and rewards</p>	<p>The French standard-setter (ANC) expressed regret that the Exposure Draft does not articulate the notion of risks and rewards versus the notion of control. In its view, the paragraph identifying ‘risks and rewards’ is not sufficiently clear because it merely repeats from IFRS Standards the notion of risks and rewards as an indicator of control, and it does not explicitly use the terminology ‘risks and rewards’.</p>	<p>Chapter 4 is discussing the definition of an asset, which requires an economic resource to be ‘controlled’ by the entity. Accordingly, any discussion of the ‘risks and rewards’ in that chapter should concern only the role that ‘risks and rewards’ should play in identifying control. The concepts for derecognition (and the Basis for Conclusions on those concepts) contain more discussion.</p> <p>In developing the Exposure Draft, the Board considered the terminology, ie whether to use the term ‘risks and rewards of ownership’ (consistently with IFRS 15) or to use words that instead explain that term (consistently with IFRS 10). It decided that using words that explain the term (‘having exposure to significant variations in the amount of the economic benefits’) would be clearer.</p>

¹³ Exposure Draft, paragraph 4.14

Topic	Feedback	Staff analysis
<p>(f) Agents and principals—concepts</p>	<p>Two respondents questioned aspects of the paragraph discussing agents and principals:</p> <ul style="list-style-type: none"> • an individual, Yoshinaga Yuko, observed that the descriptions of an agent and a principal in the Exposure Draft differ from the descriptions in IFRS 15; • IOSCO and that individual thought that the wording in the Exposure Draft implied that parties identified as agents would not recognise any assets. Both identified economic resources that an agent might control. 	<p>There are some differences between the ways in which IFRS 15 and the Exposure Draft describe agents and principals.</p> <p>However, there are no differences in the concepts being applied—like the Exposure Draft, IFRS 15 distinguishes between agents and principals by identifying the party that controls an economic resource.</p> <p>Consequently, the staff think that any changes needed to address the respondents’ concerns in can be addressed in drafting.</p>
<p>(g) Agents and principals—further guidance</p>	<p>Two respondents asked for more discussion of agents and principals in the <i>Conceptual Framework</i>:</p> <ul style="list-style-type: none"> • the Australian Accounting Standards Board suggested adding principles for determining whether an entity is acting as an agent. • the American Institute of CPAs suggested providing examples using sales taxes, repurchase agreements and pledged securities. 	<p>IFRS 15 contains a list of ‘indicators’ that an entity involved in providing goods or services to a customer is an agent, rather than a principal.¹⁴</p> <p>The staff think that guidance on determining whether an entity is acting as an agent or a principal in any other context would best be developed within that context, ie in the applicable IFRS Standard.</p>

¹⁴ IFRS 15, paragraph B37.

Staff recommendation

65. There was relatively little feedback on the concepts proposed in Chapter 4 of the Exposure Draft to explain the meaning of the phrase ‘controlled by the entity’—none of those concepts raised widespread concerns. For this reason, and for the reasons given in the ‘staff analysis’ column of the table above, the staff recommend that the Board should not make any major changes to those proposed concepts.

Question 3—Concepts explaining ‘controlled by the entity’

Do you agree that the Board should not make any major changes to the concepts proposed in the Exposure Draft to explain the phrase ‘controlled by the entity’ in the definition of an asset?

OTHER COMMENTS ON CONCEPTS SUPPORTING THE DEFINITION OF AN ASSET

66. Respondents provided comments on a variety of more detailed aspects of the concepts supporting the definition of an asset. The staff will provide the Board with a list of these comments at a future meeting, along with our recommendations for further action. We think that most, if not all, of these comments will require no further action or can be addressed in drafting.