

## STAFF PAPER

October 2016

## IASB Meeting

Project	Conceptual Framework
Paper topic	Testing the proposed asset and liability definitions—matters arising
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**Paper overview**

1. The staff have performed an exercise to test the proposed asset and liability definitions and the concepts supporting those definitions. This exercise included discussing illustrative examples with participants at the World Standard-setters Meeting in September 2016.
2. This paper provides information about the exercise performed by staff, and reports the main matters that arose during discussions at the World Standard-setters Meeting.
3. No decisions will be requested at the Board meeting. However, Board members will be asked to identify any matters arising from the testing that they think require further discussion as part of the forthcoming redeliberations of the liability definition and supporting concepts.

**Background**

4. In May 2015, the Board published an Exposure Draft *Conceptual Framework for Financial Reporting* (the Exposure Draft).
5. Some respondents to the Exposure Draft encouraged the Board to perform a more extensive analysis of the effects of the proposals so that both the Board and interested

parties could better assess implications of the proposals for future IFRS Standards. This view was often expressed in relation to proposed changes in the definitions of assets and liabilities, especially in relation to the definition of a liability and the proposed description of a present obligation.<sup>1</sup>

6. In response, the Board asked the staff to perform a more extensive analysis of the effects that the proposed definitions of assets and liabilities—and the concepts supporting those definitions—could have for current projects.<sup>2</sup> The staff have now performed that analysis.
  
7. The Board is scheduled to redeliberate in November the proposed liability definition and supporting concepts. The topics for discussion will include the main concerns raised by respondents to the Exposure Draft, as reported in the feedback summary presented to the Board in March 2016.<sup>3</sup> The topics could also include any other matters revealed by the exercise to test the definitions and supporting concepts.

### **Work performed**

8. The staff's exercise to test the proposed definitions has involved:
  - (a) analysing the outcome of applying the proposed asset and liability definitions and supporting concepts to 23 illustrative examples; and
  - (b) identifying ways in which the proposed definitions and particular supporting concepts could help the Board reach decisions in some of its current projects.

The staff analysis and conclusions are set out in Agenda Paper 10C *Testing the proposed asset and liability definitions—illustrative examples*.

9. Respondents who asked the Board to perform a more extensive analysis of the effect of the proposed changes to the definitions and supporting concepts appear to have had a variety of different concerns:

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<sup>1</sup> April 2016 IASB meeting, Agenda Paper 10B *Approach to redeliberations*.

<sup>2</sup> IASB *Update*, April 2016.

<sup>3</sup> March 2016 IASB meeting, Agenda Paper 10E *Feedback Summary—Elements of financial statements—Liabilities and equity*.

- (a) some respondents appeared to be most concerned that removing the reference to ‘expected’ inflows or outflows from the definitions, in combination with the proposed changes to the recognition concepts, could lead to requirements for entities to recognise more assets and liabilities with a low probability of inflows or outflows of economic benefits, or highly uncertain outcomes. So Agenda Paper 10C includes some assets and liabilities that may have a low probability of future inflows or outflows, or be subject to very high measurement uncertainty. And the staff analysis for these examples explains not only why an asset or liability exists, but also why that asset or liability would not necessarily be recognised.
- (b) some respondents referred to particular transactions for which they thought the implications of the proposed definitions were unclear. So the examples in Agenda Paper 10C include those transactions.
- (c) some respondents highlighted transactions within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRIC 21 *Levies*. So the examples in Agenda Paper 10C include a variety of transactions within the scope of IAS 37 and IFRIC 21. Where possible, the fact patterns used in Agenda Paper 10C are the same as those used in the illustrative examples that accompany IAS 37 and IFRIC 21. Using the same fact patterns has helped to highlight whether and, if so how, the conclusions reached applying the concepts could differ from the requirements of IAS 37 and IFRIC 21.

10. To help the staff reach conclusions and identify any problems with the proposed definitions and supporting concepts, we also discussed 20 of the illustrative examples with participants at the World Standard-Setters Meeting. Participants were divided into five break-out groups, with each group discussing at least four of the fact patterns. Participants were given a summary of the definitions and key supporting concepts, and were asked, for each example:

- (a) to give their view on the outcome of applying the proposed definitions and supporting concepts (whether they would identify an asset/liability);
- (b) how easy or hard it was to get to an answer using the proposed definitions and supporting concepts; and
- (c) whether they had any concerns about the outcomes, or any other observations.

11. The main matters that arose are listed example-by-example in the appendix to this paper. Staff responses are included in the table, with some matters being discussed further in paragraphs 13–33 below.
12. The staff have also used the input from participants at the World Standard-setters Meeting to:
  - (a) help develop the staff analysis for the illustrative examples in Agenda Paper 10C; and
  - (b) identify other illustrative examples to add to Agenda Paper 10C. Following the World Standard-setters Meeting, we added examples on goodwill (Example 1.1) and executory contracts (Examples 3.1 and 3.2).

## Staff analysis of matters raised at World Standard-setters Meeting

### **General comments**

13. Along with the fact patterns for the examples, participants at the World Standard-setters Meeting also received an explanation of why not all assets and liabilities they *identified* would necessarily be *recognised* in financial statements (ie the explanation on page 3 of Agenda Paper 10C). This explanation seemed to help participants understand the consequences of the proposed definitions—respondents who discussed the example of the asset with very uncertain outcomes (Example 1.2 *Production Process*) did not raise concerns about identifying an asset in that example because they noted that the asset would not necessarily be recognised.
14. Participants had difficulties reaching a clear consensus for a number of the examples they discussed. However, these difficulties do not necessarily indicate problems with the concepts:
  - (a) the *Conceptual Framework* does not give a single clear answer to every financial reporting question. (If it did, there would be no need for IFRS Standards and Interpretations.) Sometimes, as illustrated in Example 2.5(c) *Threshold Levy* in Agenda Paper 10C, the concepts do not give a single clear answer but may nevertheless help by narrowing the range of possibilities.

- (b) the paper given to participants summarised the proposed definitions and key supporting concepts, but did not include *all* the supporting concepts proposed in the Exposure Draft. Most notably, the papers did not include the proposed concepts on executory contracts. In hindsight, we realise that if we had included these concepts, participants might have more easily reached consensus views for some of the examples.
- (c) for some of the examples taken from IAS 37, more information about the facts and circumstances would be needed to apply the proposed concepts—in particular to reach a view on whether the entity in the example has the practical ability to avoid a future transfer. Participants readily identified the additional information needed, and the factors that should be considered.

***Matters that the staff think require further discussion by the Board***

15. The discussions at the World Standard-setters Meeting identified two matters that the staff think would be worthy of further discussion when the Board redeliberates the proposed liability definition and supporting concepts. These matters relate to:
- (a) the meaning of ‘arisen from past events’ (paragraphs 16–18); and
  - (b) concepts on existence uncertainty (paragraphs 19–22).

*The meaning of ‘arisen from past events’*

16. The Exposure Draft proposed that a liability is an obligation that has ‘arisen from past events’. The Exposure Draft further proposed that an obligation has arisen from past events if ‘the entity has received the economic benefits, or conducted the activities, that establish the extent of its obligation’.
17. Comments made by participants at the World Standard-setters Meeting indicate that some people do not see this description as an intuitive interpretation of the phrase ‘arisen from past events’:

- (a) one participant discussing Example 2.5(a) *Levy triggered when entity generates revenue in two periods* suggested that a liability would be identified in that example, but only because the proposed concepts do not interpret the term past event in a ‘natural’ way.
- (b) participants discussing Example 2.7 *Legal requirement to fit smoke filters* concluded there was a liability in that example. We do not think they would have reached this conclusion if they had applied the description of ‘arisen from past events’ proposed in the Exposure Draft. It is possible that they were intuitively applying a different interpretation.
- (c) participants discussing Example 2.9(a) *Deferred tax—income recognised before it is taxable* suggested that the proposed description seems to confuse the liability definition with measurement.

18. These comments reinforce similar concerns raised by some respondents to the Exposure Draft. Consequently, the staff think that the Board should discuss whether the proposed concepts on the meaning of the phrase ‘arisen from past events’ could be improved to address this concern. The staff could suggest possible improvements for the Board to consider when it redeliberates the proposed liability definition and supporting concepts.

*Concepts on existence uncertainty*

- 19. Example 2.3 *A court case* addresses a situation in which ten people died after a wedding, possibly as a result of food poisoning from products supplied by the entity. Legal proceedings have been started against the entity, but the entity disputes that its products were the cause of the deaths.
- 20. The staff expected participants to reach a conclusion that it is uncertain whether a liability exists in this example. We expected them to reach this conclusion because:
  - (a) we think that the activity that would establish the extent of the entity’s obligation is the supply of contaminated product. The supply of product is a past event, so if the supplied products were contaminated, the entity would have a present obligation. However, in the example, it is uncertain whether the product was contaminated, so it is uncertain whether the entity has any obligation, ie whether a liability exists;

(b) this conclusion is consistent with existing IFRS requirements. IAS 37 identifies disputed court cases as examples of existence uncertainty. IAS 37 states that ‘in rare cases, for example in a lawsuit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation’. IAS 37 then goes on to specify that a provision should be recognised if ‘it is more likely than not that a present obligation exists’<sup>4</sup>; and

(c) the recognition concepts proposed in the Exposure Draft discussed litigation situations as examples of existence uncertainty, and no respondents challenged that interpretation. Paragraph 5.16 of the Exposure Draft proposed that:

For some liabilities, it may be unclear whether a past event causing an obligation has occurred. For example, if another party claims that the entity has committed an act of wrongdoing and should compensate the other party for that act, it may be uncertain whether the act occurred or whether the entity committed it. In some such cases, the uncertainty about the existence of an obligation, possibly combined with a low probability of outflows of economic benefits and a high level of measurement uncertainty, may mean that the recognition of a single amount would not provide relevant information.

21. However, only a few of the participants in the group discussing this example concluded that the example was a case of existence uncertainty. Others reached different conclusions:

(a) some thought the entity did have a liability, but disagreed about which event gave rise to that liability. The events they suggested included:

- (i) the supply of food by the entity—at which point the entity would incur a liability to stand ready to compensate anybody harmed by the food;
- (ii) the death of the people eating the food; or
- (iii) the start of legal proceedings against the entity.

(b) others thought that the entity did not have a liability, because there had not yet been a court judgement concluding that the entity was at fault.

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<sup>4</sup> IAS 37, paragraph 16.

22. Given the variety of opinions expressed by group participants, the staff think that the Board should discuss whether to add concepts on existence uncertainty to the concepts supporting the asset and liability definitions. The staff could draft a paragraph for the Board to consider when it redeliberates the proposed liability definition and supporting concepts.

***Matters that the staff do not think require further discussion by the Board***

23. The discussions with World Standard-setters identified two other matters that the staff wish to highlight to the Board, but which we do not think require further discussion by the Board when it redeliberates the proposed liability definition and supporting concepts. These matters relate to:
- (a) the subjectivity of the ‘no practical ability to avoid criterion’ (paragraphs 24–27); and
  - (b) obligations to refrain from particular activities (paragraphs 28–33).

*Subjectivity of ‘no practical ability to avoid’ criterion*

24. The Exposure Draft proposed that an entity has an obligation to transfer an economic resource if it has ‘no practical ability to avoid’ the transfer.
25. For several of the examples illustrated in this exercise, the conclusion about whether the entity has the practical ability to avoid a future transfer could depend on the facts and circumstances. Participants often noted that the judgement could be subjective.
26. However:
- (a) few participants expressed concerns with the concept—only a few, for example, suggested that liabilities must be legally enforceable;
  - (b) respondents seemed to generally accept the Exposure Draft proposals on the meaning of ‘no practical ability to avoid’, eg the suggestion that an entity has no practical ability to avoid a transfer if, for example, any action necessary to avoid the transfer would have economic consequences significantly more adverse than the transfer itself; and

(c) the Board has acknowledged on several occasions that applying the ‘no practical ability avoid’ criterion will require judgement and that further guidance might be needed. However, the guidance would depend very much on the context in which the term ‘no practical ability to avoid’ is being applied, so the staff think that the guidance would best be developed at Standards-level.

27. Consequently, the staff do not think that the comments made by participants at the World Standard-setters meeting raise additional issues requiring further Board discussion.

*Obligations to refrain from particular activities*

28. In Example 2.10 *Non-compete agreement*, an entity operates restaurants in cities throughout a region. It sells its restaurant in one city and receives a fee in exchange for agreeing not to open another restaurant in that city for five years.
29. Two groups discussed this example, with both groups arriving at a consensus that the entity does not have a liability. Participants tended to accept an analysis broadly consistent with the staff analysis in Agenda Paper 10C, ie that the entity has given up a right it previously had (or has lost an opportunity it previously had) to generate economic benefits; it has not incurred an obligation to transfer an economic resource in future.
30. However, several participants expressed strong concerns about the practical implications of this conclusion. They noted that, before entering into the non-compete agreement, the entity is unlikely to have recognised as an asset the right that it gives up on entering into the agreement. If the entity had not recognised that right as an asset, it would recognise the whole fee as a gain when it entered into the agreement. In the view of some participants, reporting a gain on entering into the agreement would not be a faithful representation of the transaction (an exchange of resources).
31. One participant thought that this example demonstrates a need to acknowledge in the *Conceptual Framework* that sometimes there is a case for recognising in the statement of financial position deferred income (or deferred expenses) that do not meet the definitions of a liability (or an asset).
32. The staff do not think that this matter should be addressed at a conceptual level. We think that the example does not reveal a flaw in the concepts. Instead it reveals the

accounting mis-matches that can arise if some assets or liabilities are not recognised. And, whilst some transactions might give rise to a need to consider alternative ways of addressing potential accounting mis-matches, this matter would best be considered in context, ie if and when the Board is developing requirements for those transactions.

33. Consequently, the staff do not think that further discussion is required on this matter when the Board redeliberates the liability definition and supporting concepts.

## Questions for the Board

**Questions for the Board**

When the Board redeliberates the proposed liability definition and supporting concepts, the topics for discussion will include the main concerns raised by respondents to the Exposure Draft, as reported in the feedback summary presented to the Board in March 2016.<sup>5</sup>

- 1 Do you agree that the Board should also discuss:
  - (a) whether the proposed concepts on the meaning of the phrase ‘arisen from past events’ could be improved (see paragraphs 16–18); and
  - (b) whether to add concepts on existence uncertainty (see paragraphs 19–22)?
- 2 Do you think that the exercise to test the proposed definitions and supporting concepts has revealed any other matters that require further discussion by the Board when it redeliberates the liability definition and supporting concepts?
- 3 Do you have any other comments on the staff analysis and conclusions in Agenda Paper 10C?

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<sup>5</sup> March 2016 IASB meeting, Agenda Paper 10E *Feedback Summary—Elements of financial statements—Liabilities and equity*.

## Appendix—Summary of discussions in break-out groups at World Standard-setters Meeting

Ref	Example	Asset/liability identified applying concepts? (Majority view)	Consistent with staff view (Agenda Paper 10C)?	Reasons for conclusions/concerns raised	Staff response
A	1.1 Goodwill			[The goodwill example was added after the World Standard-setters Meeting, so was not discussed by participants at that meeting.]	
B	1.2 Production process	✓	✓	Some participants questioned whether a right needs to be exclusive / legal for an asset to be identified. Some asked for clarification in the <i>Conceptual Framework</i> . Some noted that the asset may not be recognised.	Participants did not have the full text of the Exposure Draft. The concepts supporting the definition will clarify that: “Although control of an economic resource usually arises from legal rights, it can also arise if an entity has the present ability to prevent all other parties from directing the use of it and obtaining the benefits from the economic resource. For example, an entity may control know-how obtained from a development activity by having the present ability to keep that know-how secret.” <i>Paragraph 4.20 of Exposure Draft</i>
C	1.3 Assembled workforce (first group)	X	Staff views are split. Group consistent with one of the staff views.	There was general consensus that the entity does not control the assembled work force. It has no right to employees’ services beyond the three month contractual period.	–
D	1.3 Assembled workforce (second group)	Split views.	✓ Consistent with split views among staff.	Participants’ conclusions depended on their views on the extent of the entity’s rights: do the rights (or the benefits of those rights) extend for only the three months’ notice period or also beyond this period (because employees are not expected to leave). Some sought to analogise to existing requirements to recognise customer relationships in a business combination beyond the term of the contract.  (Some questioned whether the entity even has rights for the three-month notice period—they argued that the entity cannot control the employees’ performance and the value they produce is not controlled by the entity.)	For years, there have been debates about whether some intangible sources of value, such as assembled workforces, are intangible assets that are identifiable separately from goodwill.  The proposed concepts should, if anything, help—because they require the identification of a ‘right’. The question then becomes whether that right is different from the rights that constitute goodwill, and which economic benefits should be considered as part of that right.

Ref	Example	Asset/liability identified applying concepts? (Majority view)	Consistent with staff view (Agenda Paper 10C)?	Reasons for conclusions/concerns raised	Staff response
<b>E</b>	1.4 Option	✓	✓	Participants thought that all the criteria were clearly met. No issues were raised.	–
<b>F</b>	1.5 Jointly controlled real estate	✓	✓	<p>The group consensus was that there was an asset, which was the 25% interest in the real estate (as opposed to the real estate itself).</p> <p>However, a concern was raised about control. Participants questioned whether the entity had the ability to ‘direct the use’ of its 25% share, given that the only decision it could take was to decide whether to keep or sell the interest.</p>	<p>Questions about an entity’s ability to direct the use of an economic resource have arisen in other contexts too, including some contexts in which the entity cannot even make decisions about keeping or selling resource (because the resource is non-transferrable).</p> <p>We think that in assessing whether an entity can ‘direct the use’ of an economic resource, it is not necessary that the entity can use the economic resource in different ways. Rather, it is necessary that, to the extent that decisions <i>can</i> be made about the use of the asset, the entity, <i>rather than any other party</i>, has the ability to make them. We could make this clearer in the drafting of the concepts on control.</p>
<b>G</b>	1.6 Unused tax loss	✓	✓	The only matter for debate was the question of control. However, once the group identified that the right being considered was the right to claim a deduction, rather than a right to future profits, everyone quickly agreed that the right was controlled by the entity.	–

Ref	Example	Asset/liability identified applying concepts? (Majority view)	Consistent with staff view (Agenda Paper 10C)?	Reasons for conclusions/concerns raised	Staff response
<b>H</b>	2.1 Product warranties	✓	✓	There was debate about whether an obligation existed before the defect became apparent. This became a common theme through the rest of the examples discussed by this group. What is meant by identifying an obligation, separately from the other criteria?	In Agenda Paper 10C, the first criterion tested for each example is whether the transaction has the ‘potential to require transfer of economic resource to another party’. Slightly different wording was used in the version given to participants at the World Standard-setters Meeting—participants were asked to consider whether the ‘obligation is to transfer an economic resource to another party’. Including the word ‘obligation’ confused people, because other criteria had to be assessed before reaching a view on whether there was an obligation. The new wording now in Agenda Paper 10C aims to avoid such confusion.
<b>I</b>	2.2 Contaminated land constructive obligation (first group)	Depends on facts and circumstances.	✓	<p>Different views were expressed on whether the existence of a published policy is:</p> <ul style="list-style-type: none"> <li>- one of the ‘past events’ required to create an obligation, or</li> <li>- one piece of evidence that would be considered in assessing whether an entity has the practical ability to avoid a transfer.</li> </ul> <p>There was a general consensus in favour of the latter view. And the consensus was that whether a liability existed would depend on whether the entity had the practical ability to avoid complying with its policy, ie if the economic consequences of the reputational damage from not cleaning up are significantly more adverse than the cost of cleaning up.</p> <p>Group members were generally comfortable with the notions that:</p> <ul style="list-style-type: none"> <li>- liabilities can exist even if obligations are not legally enforceable;</li> <li>- environmental obligations are obligations to transfer an economic resource (clean up services); and</li> <li>- it is not necessary to know the identity of the other party—the obligation is to the public at large.</li> </ul>	<p>The group’s conclusions are consistent with the proposal in paragraph 4.34 of the Exposure Draft that liabilities can arise from an entity’s customary practices, published policies or specific statements <i>if the entity has no practical ability to act in a manner inconsistent with those practices, policies or statements.</i></p> <p>The judgement required to apply the ‘no practical ability to avoid’ criterion is discussed in the staff analysis in paragraphs 24–27 in the body of this paper.</p>

Ref	Example	Asset/liability identified applying concepts? (Majority view)	Consistent with staff view (Agenda Paper 10C)?	Reasons for conclusions/concerns raised	Staff response
<b>J</b>	2.2 Contaminated land constructive obligation (second group)	X	X	The majority view was that there is no liability because the obligation is not legally enforceable. Entities have the practical ability to change their policies.	This group's view is not consistent with the concepts, which allow for the possibility that an entity has no practical ability to avoid its published policies.  The group's view is also out of line with the views of most respondents to the Exposure Draft—most respondents agreed that liabilities need not be legally enforceable.
<b>K</b>	2.3 A court case	Split views	X  (The staff view is the same as the second of the views listed in the next column.)	Different views on past event that gives rise to an obligation: <ol style="list-style-type: none"> <li>1. delivery of the food gives rise to an obligation to stand-ready to make a payment if the entity has sold contaminated food— similar to a warranty obligation;</li> <li>2. sale of contaminated food—whether the entity has sold contaminated food is uncertain so the existence of the liability is uncertain;</li> <li>3. death of people eating the food;</li> <li>4. start of legal proceedings against the entity; and</li> <li>5. court judgement concluding that the entity is at fault.</li> </ol>	The diversity of views is discussed in the staff analysis in paragraphs 19–22 in the body of this paper.
<b>L</b>	2.4 Long service leave	<i>Employed for nine years:</i> ✓  <i>Employed for two years:</i> depends on facts and circumstances	✓	Application of the 'no practical ability to avoid' criterion for the employees employed for two years: <ul style="list-style-type: none"> <li>- more information about the specific circumstances is needed to make this judgement (eg about local employment law); and</li> <li>- unit of account influences judgement, ie one employee or the whole group of employees.</li> </ul>	The judgement required to apply the no practical ability to avoid criterion is discussed in the staff analysis in paragraphs 24–27 in the body of this paper.

Ref	Example	Asset/liability identified applying concepts? (Majority view)	Consistent with staff view (Agenda Paper 10C)?	Reasons for conclusions/concerns raised	Staff response
<b>M</b>	2.5(a) Levy when entity generates revenue in two periods (first group)	✓ (small majority)	✓	<p>Views were divided on whether the relevant past event was the generation of revenue in 20X0 (which establishes the extent of the entity's obligation) or the first generation of revenue in 20X1 (which triggers the levy, and grants the entity a form of licence to operate for 20X1). There was some concern that just the way the regulation was worded might give different answers to economically very similar circumstances.</p> <p>One participant noted that the proposed description of a past event (the receipt or activity that establishes the extent of the entity's obligation) would lead to a liability being recognised at 20X0, but was not a very 'natural' interpretation of the term 'past event'.</p>	<p>Levies (and other transactions that do not involve direct exchanges of economic resources) are likely to be more difficult to analyse than direct exchange transactions. There will inevitably be more challenges in applying the proposed concepts to such transactions. But unlike the concepts that were applied in IFRIC 21, the proposed concepts could be applied to develop requirements that result in information that is regarded as useful (ie relevant and a faithful representation of the entity's assets, liabilities, income and expenses).</p> <p>Concerns about the proposed description of a past event are discussed in the staff analysis in paragraphs 16–18 in the body of this paper.</p>
<b>N</b>	2.5(a) Levy when entity generates revenue in two periods (second group)	X (small majority)	X	Virtually all group members felt intuitively that a liability exists. However, only a minority thought that the proposed definition and supporting concepts would lead to a liability being identified.	See response in row 'M' above.
<b>O</b>	2.5(b) Levy if entity operates at end of reporting period	✓	✓	Although the group reached the same conclusions as the staff, it did not find the example easy. Questions were raised about the effects of small changes in fact pattern, whether the levy gives rise to an asset and whether the entity has the practical ability to avoid the levy.	See response in row 'M' above.

Ref	Example	Asset/liability identified applying concepts? (Majority view)	Consistent with staff view (Agenda Paper 10C)?	Reasons for conclusions/concerns raised	Staff response
<b>P</b>	2.5(c) Threshold levy	Leaning towards ✓, but some debate	✓	<ul style="list-style-type: none"> <li>- Obligation and ‘no practical ability to avoid’ are met, however, question what ‘past event’ is ie accumulating the revenue or tripping the wire (some analogised to cliff vs graded vesting)</li> <li>- Potentially different conclusion in a slightly different scenario eg in a troubled economy. Hence, conclusion would always be driven by facts and circumstances</li> </ul>	<p>This example illustrates that the proposed concepts do not always give a single clear answer but may nevertheless help by narrowing the range of possibilities.</p> <p>The judgement required to apply the no practical ability to avoid criterion is discussed in the staff analysis in paragraphs 24–27 in the body of this paper.</p>
<b>Q</b>	2.6 (a) Restructuring costs— employee termination benefits	Leaning towards ✓ although question on when ‘no practical ability to avoid’ is met	Largely yes plus additional considerations	<ul style="list-style-type: none"> <li>- Law is a factor in meeting obligation and past event conditions – not just the fact that employees have already performed and no further services in return for termination benefits.</li> <li>- Much debate about what stage in the process (acquisition/making the plan/announcing the plan/handling termination notices to specific employees) means that the ‘no practical ability’ test is satisfied. One view was that test is not satisfied because it may still be possible to operate even with excess capacity or possibility to sell.</li> </ul>	The staff view on the matters debated is set out in Agenda Paper 10C.
<b>R</b>	2.6(b) Restructuring costs— associated legal fees	X	✓	Like the staff, the group suggested that the costs might be recognised if they were viewed as part of the termination benefits. The staff regarded this as a measurement question. However, the group regarded it as a unit of account question. Some requested more guidance on unit of account in the <i>Conceptual Framework</i> .	Further guidance could be developed at Standards-level.

Ref	Example	Asset/liability identified applying concepts? (Majority view)	Consistent with staff view (Agenda Paper 10C)?	Reasons for conclusions/concerns raised	Staff response
S	2.7 Legal requirement to fit smoke filters	✓	X	<p>There were different views on what the past event was, with the majority thinking it was the passing of the legislation.</p> <p>A minority of participants argued that there is no obligation until the entity has either fitted the filters (and has an obligation to pay for them), or the legislation has come into effect. Some noted that until the entity has fitted filters, any obligation to fit them is executory—the entity will receive an economic resource (the filters) in exchange for transferring an economic resource (cash).</p>	<p>The entity has not yet ‘received the benefits or conducted the activities that establish the extent of its obligation’. So it seems clear to staff that the passing of legislation is not the event that creates an obligation. Even after the legislation comes into effect, the entity’s only obligations would be to pay any fines for operating without filters, and to exchange cash for filters.</p> <p>The meeting paper included a summary of the key concepts proposed in the Exposure Draft. But this summary did not include the proposed concepts on executory contracts. If we had included these concepts, participants might have analysed this example differently.</p>
T	2.8 Refurbishment costs	X	✓	<p>It was only with help from the chairman and staff support member that the group identified that the question concerned an obligation to enter into an exchange transaction (rather than to transfer an economic resource).</p>	<p>As with the smoke filters example, participants might have reached conclusions more easily for this example if the meeting paper had included the proposed concepts on executory contracts.</p>
U	2.9(a) Deferred tax— income recognised before it is taxable	✓	✓	<p>General consensus that recognition of a deferred tax charge gives the most faithful representation of the entity’s performance (achieves ‘matching’).</p> <p>Most participants took the view that there is a liability, but some questioned whether the proposed definitions would get you there.</p> <p>Debates focused on the ‘past events’ criterion. One participant queried why the concepts focus on the event that establishes ‘the extent of’ the obligation—suggesting that this term sounds like a measurement notion.</p>	<p>There have long been debates about whether deferred tax balances meet the definitions of assets and liabilities in their own right, or are recognised for some other reason, ie to ensure that the other assets and liabilities are measured at post-tax amounts. Although the proposed changes to the definitions might not provide much additional help, they are not raising any new problems.</p>

Ref	Example	Asset/liability identified applying concepts? (Majority view)	Consistent with staff view (Agenda Paper 10C)?	Reasons for conclusions/concerns raised	Staff response
V	2.9(b) Deferred tax—expense deductible before it is recognised	X	✓	<p>Receipt of a tax deduction is not a ‘past event’—the entity’s future profits will establish the extent of its future tax payments.</p> <p>Participants expressed concerns about this outcome. They argued that it is necessary to recognise a deferred tax charge (and hence a credit in the statement of financial position) to faithfully represent the entity’s performance.</p> <p>A minority view was that there is a liability—the entity has received a deduction that it will have to refund when it recovers the carrying amount of the equipment.</p>	See response in row U above.
W	2.10 Non-compete agreement (first group)	X	✓	<p>The group consensus was that there is no obligation to transfer an economic resource. In exchange for receiving a fee, the entity has already transferred a right to the counterparty, not incurred an obligation to transfer an economic resource in future.</p> <p>Participants expressed concerns about their conclusions. They noted that in many circumstances, the entity would not have previously recognised as an asset the right that it transferred to the other party when it entered into the non-compete agreement. If the entity had not recognised the right as an asset, it would recognise the whole fee as a gain when it gave up its right.</p> <p>One participant thought that this example demonstrated a need to acknowledge that sometimes there was a case for recognising in the statement of financial position deferred income /expenses that do not meet the definitions of a liability/asset.</p>	Participants’ concerns about the outcome are discussed in the staff analysis in paragraphs 28–33 in the body of the paper.
X	2.10 Non-compete agreement (second group)	X	✓ but alternative analysis also developed.	<p>Most participants viewed the agreement as an opportunity cost (the entity has lost the opportunity to generate income), in which case there is no outflow of resources. Some thought that, although the entity may have to pay compensation if it breaks the agreement, it has the practical ability to avoid paying the compensation because it has the practical ability to avoid opening a restaurant. Either way, the entity does not have a liability.</p>	–

Ref	Example	Asset/liability identified applying concepts? (Majority view)	Consistent with staff view (Agenda Paper 10C)?	Reasons for conclusions/concerns raised	Staff response
<b>Y</b>	2.11 Government grant (first group)	Maybe, depends if the cost of employing people is onerous.	✓	Much of the discussion focused on whether the entity had the practical ability to avoid repaying the loan by employing people.	–
<b>Z</b>	2.11 Government grant (second group)	No overall conclusions reached	–	Initially, the group focused on whether there was an obligation to pay cash (refund the grant) and many thought there was no obligation until the breach occurred (or was foreseeable). Later, with prompting from the chairman and staff support, most began to see that there was an obligation to either employ people or refund cash. Many thought that obligation was not onerous, but some began to pick up on the idea that the fact the government feels the need to provide the grant is an indication that the obligation may be onerous. The meeting materials provided were insufficient to enable participants to realise, without help, that this was the real issue.	As with the smoke filters and refurbishment costs examples, participants might have reached conclusions more easily for this example if the meeting paper had included the proposed concepts on executory contracts.