

## STAFF PAPER

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## IASB Meeting

Project	Conceptual Framework		
Paper topic	Minor comments on concepts supporting asset and liability definitions		
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**Purpose of paper**

- 1 In May 2015, the Board published for comment the Exposure Draft *Conceptual Framework for Financial Reporting* (the Exposure Draft). At previous Board meetings, the Board has discussed the main comments received on Chapter 4 *The elements of financial statements*. This paper lists other comments, which are suggestions for a variety of minor or drafting changes to detailed aspects of the proposals.
- 2 We think that, in each case, the comment can be addressed in drafting, or that no action is required. Our reasons are explained below. Accordingly, we will not raise any of the comments in this paper for discussion in the Board meeting, unless requested to do so by a Board member.

### General comments (including comments on introductory paragraphs)

Exposure Draft paragraph	Exposure Draft text	Comment	Staff response
<b>Terminology</b>	Mixed use of terms ‘asset’, ‘economic resource’, ‘resource’, ‘liability’ and ‘claim’.	Where intended to mean the same, use the same word. It is unclear why the Exposure Draft refers to economic resources and claims in some places but to assets and liabilities in others.	To be reviewed in drafting. We have aimed to use the more appropriate term for the item being described. But we will check that we have been consistent.
<b>Terminology</b>	Uses ‘asset’ sometimes to refer to single rights, sometimes to refer to a bundle of rights, and sometimes to refer to the underlying physical object.	<p>More care is needed to use the term asset consistently.</p> <hr/> <p>The <i>Conceptual Framework</i> needs to be clear and consistent throughout that:</p> <ul style="list-style-type: none"> <li>(a) an asset is a single right;</li> <li>(b) it may be appropriate to reflect a bundle of related rights as ‘the asset’, which may or may not take a physical form, and to apply recognition and measurement criteria to that bundle; and</li> <li>(c) the bundle of rights forming ‘the asset’ may change on the occurrence of an event, the nature and extent of the change resulting in derecognition of ‘the asset’ or part of ‘the asset’.</li> </ul>	<p>The drafting will be reviewed to ensure that when referring to assets, we refer to the rights, not the underlying objects.</p> <hr/> <p>We agree and will consider whether any drafting changes would help to make these points clear.</p>

Exposure Draft paragraph	Exposure Draft text	Comment	Staff response
4.4	[Table linking elements to resources, claims and changes in resources and claims.]	The descriptions of ‘other changes in resources and claims’ would flow better if included in the ‘financial performance’ row, with ‘other changes in resources and claims that do not represent income and expense’ in the ‘element’ column.	We think the respondent has read the Exposure Draft wording to mean that <i>all</i> changes in resources and claims are part of financial performance. We will consider in drafting how to be clear that changes in resources and claims can result from financial performance (income and expenses) or other sources (such as, contributions from or distributions to holders of equity, or exchanges of assets).
		Delete the ‘other changes in resources and claims’ row. It does not add anything.	This row helps to show that there is not a one-to-one map from changes in resources and claims in Chapter 1 <i>The objective of general purpose financial reporting</i> to income and expenses in Chapter 4. (Income and expenses are not the only source of changes in resources and claims.) No further action proposed.

## Asset definition and supporting concepts

Exposure Draft paragraph	Exposure Draft text	Comment	Staff response
4.5	An asset is a present economic resource controlled by the entity as a result of past events.	Explain how the notion of ‘past events’ would be applied in the context of the asset definition. The discussion on past events in paragraphs 4.36-4.39 relates only to liabilities.	The revised <i>Conceptual Framework</i> will state that if one party has an obligation to transfer an economic resource (a liability), another party has a right to receive that resource (an asset)—see paragraph 4.25 of the Exposure Draft. This statement will clarify that the past events that give rise to a liability can also give rise to an asset for the counterparty. We have not identified any problems in practice to suggest a need for further discussion about past events in the context of assets. No further action proposed.

Exposure Draft paragraph	Exposure Draft text	Comment	Staff response
4.6	An economic resource is a right that has the potential to produce economic benefits.	Prefer 'is capable of'. The Board says the terms mean the same thing so should use the same term throughout the <i>Conceptual Framework</i> .	The Board's argument was that if used in the economic resource definition, 'capable' would be used with a <i>different</i> meaning from its use in the discussion of relevance. Paragraph BC4.16 of the Basis for Conclusions explained the reason for proposing 'potential' instead of 'capable'. Few respondents disagreed. No further action proposed.
		No need to define economic resource. It is used without definition in existing Standards.	Defining an economic resource as a right is the means of defining an asset as a right—one of the main (and well supported) changes to the asset definition this project. It is also the means of moving the reference to future economic benefits out of the definition of an asset itself, so that readers are less likely to confuse the existing economic resource with the economic benefits it may produce. No further action proposed.
		Merge definitions of asset and economic resource.	BC4.10 explained the reasons for splitting the definitions. Few respondents disagreed. No further action proposed.
		No need for 'that has potential to produce economic benefits'. A right cannot be anything other than valuable or potentially valuable.	Some rights are not economic in nature (eg parental rights of access to children). So it is necessary to include the reference to economic benefits in the definition of an economic resource. No further action proposed.
		Define the term 'right'. Dictionary.com defines a right as a 'just claim or title, whether legal, prescriptive or moral'.	The revised <i>Conceptual Framework</i> will give examples of rights and provide some discussion of how they arise. We do not think that adding a formal definition would add significant value and could cause confusion. No further action proposed.

Exposure Draft paragraph	Exposure Draft text	Comment	Staff response
		The definition of an economic resource may not include all the resources and relationships that entities depend on to create value (the ‘six capitals’ defined by the International Integrated Reporting Council). Add a note to this effect to the <i>Conceptual Framework</i> .	Chapter 1 of the <i>Conceptual Framework</i> states that financial statements provide information about the entity’s economic resources. Chapter 4 supports Chapter 1 by defining the term. We do not think Chapter 4 needs to refer to other types of resource. No further action proposed.
4.8	Rights that constitute economic resources may take the following forms:	Add to the list ‘enhancements to existing rights’, which would include, for example, stripping costs.	We think that such enhancements are adding to the service potential of <i>existing</i> rights, not a different type of right. Hence, it would not be appropriate to include them in this list. No further action proposed.
4.8(a)	(ii) rights over physical objects, such as property, plant and equipment or inventories.	The list should include rights over cash, not just rights over physical objects. As with physical objects, the assets that arise from cash are the rights embodied in the cash, not the object itself. (The Exposure Draft seems to view cash as a present economic benefit, not a right to benefits.)	We will ensure in drafting that, wherever the <i>Conceptual Framework</i> identifies a particular type of asset, it refers to the entity’s right (rather to any object in which the right is embodied). We agree that the assets arising from cash are the rights embodied in the cash, but do not think that there is any need to add ‘rights over cash’ to the examples listed in paragraph 4.8.  The <i>Conceptual Framework</i> also refers to cash as an economic benefit (see paragraph 4.14). Here the term ‘cash’ is a simple and understandable label.  No further action proposed.
	(iii) rights to exchange economic resources...	It should be possible to be consistent and replace the term ‘economic resources’ in this paragraph and later ones. The use in this paragraph is circular.	We do not think that the definition is circular. An entity could have a right to exchange rights. No further action proposed.

Exposure Draft paragraph	Exposure Draft text	Comment	Staff response
4.8(b)	Rights arising from a constructive obligation of another party.	Rights cannot arise from constructive obligations. Rights must be legally enforceable.	We think that rights can arise from the constructive obligations of another party. This conclusion is a logical consequence of the definition of a liability and symmetry between asset and liability definitions. Few respondents disagreed. No further action proposed.
4.8(c)	Other rights that give the entity the potential to receive future economic benefits...	The wording is different from that used in the definition of a resource (potential to <i>produce</i> economic benefits). It is unclear whether the difference is intended.	No difference was intended. We should make the terminology consistent (ie change 'receive' to 'produce'). To be addressed in drafting.
4.9	Goods or services (for example, employee services) that are received and immediately consumed are momentarily rights to obtain economic benefits until they are consumed.	Clarify that this concept applies regardless of how the asset is paid for, ie even if it is paid for with the issuer's own equity. It is the consumption of an asset, not the way in which the asset is paid for, that gives the expense.	The point that an expense arises from consumption of an asset, rather than from the way that the asset is paid for applies to any asset—not just one that is consumed immediately. It is necessary to combine this point with the concept in paragraph 4.9 to explain the requirements of IFRS 2 <i>Share-based Payments</i> (as explained in the Basis for Conclusions accompanying IFRS 2). But the point itself is not about the definition of an asset so we do not think that it should also be discussed in this section of the <i>Conceptual Framework</i> . No further action proposed.
		This paragraph is not useful or necessary.	We think the point is useful because it helps to explain the concept underlying the requirements of, for example, IFRS 2. No further action proposed.
		In some circumstances, entities may receive and consume benefits without ever having had the power to insist that the benefits are provided. Eg an entity may pay to obtain access to potential customers in the hope that they will make purchases, but it has no power to require that they do.	Paragraph 4.9 is not saying that, before an entity receives an economic resource, it necessarily has a right to receive that resource. Paragraph 4.9 is saying that when an entity receives goods or services, the right to the economic benefits from those goods or services is momentarily an asset even if (as is the case with services), those benefits are then received immediately, and the asset is consumed immediately. No further action proposed.

Exposure Draft paragraph	Exposure Draft text	Comment	Staff response
4.11	An entity cannot have a right to receive economic benefits from itself.	An entity similarly cannot have an obligation to transfer an economic resource to itself. It would be helpful to state this point more explicitly.	Paragraph 4.27 already states that a liability ‘must have the potential to require the entity to transfer an economic resource <i>to another party</i> ’. And paragraph 4.25 states that if one party has an obligation to transfer a resource, <i>another party</i> has the right to receive that resource (emphasis added). In other words, only if another party has a right can the entity have an obligation. We think that these statements are sufficient, in combination with paragraph 4.11, to be clear that an entity cannot have an obligation to itself. No further action proposed.
4.12	In principle, each of an entity’s rights is a separate asset. However, for accounting purposes, related rights are often treated as a single asset, namely the unit of account (see paragraphs 4.57-4.63). ...	<p>Clarify that, in many cases, where the legal form is not different from the commercial substance, the rights are accounted for as a single item, whereas where the legal form differs from the economic substance, the rights might be accounted for as more than a single item.</p> <hr/> <p>State that related rights are separate assets only if they are separable. (Otherwise inconsistent with Board’s conclusions that a right and obligation to exchange resources are not separate asset and liability because they are not separable.)</p>	<p>This is a statement about selecting a unit of account. We do not think that the unit of account would necessarily depend on whether the legal form of a transaction is the same as its economic substance. So we do not think such a statement should be added to the concepts in paragraphs 4.57–4.63. No further action proposed.</p> <hr/> <p>We do not think that related rights must be separable for each one to be an identifiable asset. The inability to separate a right and an obligation is relevant in the analysis of executory contracts, because in such contracts the right and obligation are <i>to do the same thing (ie exchange resources)</i>. There are different factors to consider for a group of related rights, because those rights are <i>to do different things</i>. Separation might be impossible or unlikely in practice—but that would be a unit of account issue. No further action proposed.</p>

Exposure Draft paragraph	Exposure Draft text	Comment	Staff response
4.12	Conceptually, the economic resource is the set of rights not the physical object. Nevertheless, describing the set of rights as the physical object will often provide the most concise, clear and understandable information.	Explain this concept in terms of both unit of account and substance over form, which would have as a consequence that the information provided is more concise, clear and understandable because more relevant.	We do not think that the bundling of rights is necessarily a matter of substance over form. No further action proposed.
4.13	For the economic resource to have the potential to produce economic benefits, it need not be certain, or even probable, that the resource will produce economic benefits. It is only necessary that the economic resource	Suggest copying into this paragraph the notion that the economic benefits must arise from some feature that already exists within the economic benefits (ie discussion currently in Basis for Conclusions BC4.16(a)). This would make paragraph 4.13 clearer.	Paragraph 4.13 already states that the economic benefits must arise from an existing right. No further action proposed.
		Explain that the probabilities of receiving economic benefits relate to the measurement of an asset, not its existence.	The probability would not necessarily be reflected in measurement. We do not think it would be appropriate to discuss measurement concepts within the concepts supporting the asset definition. No further action proposed.



Exposure Draft paragraph	Exposure Draft text	Comment	Staff response
	<p>already exists and that there is at least one circumstance in which it would produce economic benefits.</p>	<p>Clarify that only circumstances that have commercial substance and are not remote should be taken into consideration. It is impractical to consider every possible but highly unlikely scenario.</p>	<p>Paragraph 4.55 clarifies that only terms that have commercial substance should be considered in assessing contractual rights and obligations. Practicality would be addressed at Standards-level. No further action proposed.</p>
		<p>Clarify that the potential to produce economic benefits should be assessed from an entity-specific perspective.</p>	<p>We think that the Exposure Draft was clear that it is necessary to assess whether the right has the potential to produce economic benefits for the entity. No further action proposed.</p>
		<p>Clarify that the economic resource must have the potential to produce economic benefits beyond the current period.</p>	<p>It is only necessary that the right has the potential to produce economic benefits at any future time. No further action proposed.</p>
<b>4.14</b>	<p>The economic benefits produced by an economic resource could include:</p> <ul style="list-style-type: none"> <li>(a) receiving contractual cash flows;</li> <li>(b) receiving another economic resource or exchanging economic</li> </ul>	<p>Wording wrongly implies that economic benefits are actions (receiving eg cash) rather than the outcome of the actions (the cash received).</p> <p>Add 'service potential' to the list, so that the economic benefits include those typically produced by public sector assets.</p>	<p>Noted. To be addressed in drafting.</p> <p>Covered by paragraph 4.14(c)(i), which identifies services as economic benefits. No further action proposed.</p>

Exposure Draft paragraph	Exposure Draft text	Comment	Staff response
resources with another party on favourable terms; (c) using the economic resource to produce cash inflows (or save cash	Clarify that the economic benefits would include those that can be gained indirectly, eg from a bus used to transport employees.	Paragraph 4.14(c)(i) clarifies that economic resources have the potential to produce economic benefits if they can be used in combination with other resources to produce goods or provide services. We do not think that we need to identify particular examples. No further action proposed.	
outflows), for example: (i) using the economic resource singly or in combination with other economic resources to	It would be desirable to complete the definitions by adding a definition of ‘economic benefit’.	We do not think that a precise definition is necessary, and a definition could be difficult to word accurately. Paragraph 4.14 instead gives a variety of examples. No further action proposed.	
produce goods or provide services; ...	The effect is that ‘economic benefits’ are made up of other economic benefits. The characterisation is thus circular. To break out of the circle, either some economic benefit needs to be privileged—eg cash could be designated as both an economic benefit and a right to an economic benefit—or there needs to be acknowledgement that economic benefits must at some point be turned into welfare benefits enjoyed by humans.	The economic benefits produced by an asset could be another asset. We do not see that there is any practical need to identify one particular asset (such as cash) as the ultimate economic benefit. No further action proposed.	
	The term ‘economic benefits’ is not sufficiently clear. Clarify whether it includes items other than cash and, if so, what other items.	Paragraph 4.14 provides a list of examples. No further action proposed.	

Exposure Draft paragraph	Exposure Draft text	Comment	Staff response
4.16	There is a close association between incurring expenditure and acquiring assets, but the two do not necessarily coincide. ... Assets can include, for example, rights that have been granted to the entity free of charge by a government or donated to the entity by another party.	<p>The relationship between incurring expenditure and acquiring assets warrants further elaboration at the <i>Conceptual Framework</i> level.</p> <hr/> <p>Omit the last sentence because it pre-judges the outcome of standard-setting on government grants and perhaps other Standards. The <i>Conceptual Framework</i> should contain only high-level principles.</p>	<p>Respondents did not identify any specific concepts that they thought were missing. The discussion seems sufficient for the <i>Conceptual Framework</i>—more detailed requirements and guidance could be developed in individual Standards. No further action proposed.</p> <hr/> <p>Paragraph 4.16 is simply saying that assets <i>can</i> include rights granted free of charge and donated to the entity. It does not specify which such items would meet the definition or should be recognised. No further action proposed.</p>
4.17-4.23	Paragraphs discussing the meaning of ‘control’ in the definition of an asset.	The definition of control in Chapter 4 is at odds with the definition in Chapter 3 <i>Financial Statements and the reporting entity</i> (paragraphs 3.14-3.15). Agree with the concepts, but suggest using another word for control in Chapter 4.	Chapter 3 of the Exposure Draft identified two types of control—direct and indirect—but did not define control itself. We do not think there is any inconsistency between the two chapters. No further action proposed.

Exposure Draft paragraph	Exposure Draft text	Comment	Staff response
4.17	<p>... 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.</p>	<p>The paragraph confuses proportionate consolidation / interest with the rights the entity controls. The <i>Conceptual Framework</i> should make it clear that the entity accounts for the rights that it controls. This paragraph should say that the entity's asset is 'those rights in the property, which it controls'. The rest of the sentence should be deleted.</p>	<p>This paragraph should refer to control of rights (not to control of underlying objects). But rather than delete any of the last sentence (all of which we think is important) we will ensure that this sentence consistently refers to rights, eg to say that the entity's asset is its <u>rights over the share</u> in the property. To address in drafting.</p>
4.18	<p>An entity controls an economic resource if it has the present ability to ....</p>	<p>Just as 'present' is not necessary in the definition of an asset, it is not necessary in this paragraph.</p>	<p>The respondent also suggested that the term 'present' should be removed from the definitions of an asset and a liability. The Board discussed this suggestion at its meeting in November 2016. It decided to keep the term. No further action proposed.</p>
4.20	<p>... For example, an entity may control know-how obtained from a development activity by having the present ability to keep that know-how secret.</p>	<p>Know-how may not be the best illustration. It is often difficult to estimate the economic benefits arising from know-how and to assess whether the know-how has the potential to produce economic benefits. Replace this example with one of an in-house manufacturing process that has been developed by the entity and is not available for use by other parties outside the entity.</p>	<p>This paragraph is not discussing whether know-how has the potential to produce economic benefits, but whether the entity has the ability to obtain any economic benefits that know-how generates. We think that know-how is a good example to illustrate this concept. No further action proposed.</p>

Exposure Draft paragraph	Exposure Draft text	Comment	Staff response
4.23	Paragraph discussing agents.	This paragraph discusses both assets and liabilities, so should be in a separate section within Chapter 4, instead of within the discussion of assets.	This paragraph is primarily discussing economic resources held by the agent but controlled by the principal, ie assets. No further action proposed.

## Liability definition and supporting concepts

Exposure Draft paragraph	Exposure Draft Text	Comment	Staff response
4.25	If one party has an obligation to transfer an economic resource (a liability), it follows that another party (or parties) has a right to receive that economic resource (an asset).	Remove 'an asset' from the end of the first sentence to avoid any suggestion that an entity should seek to identify such assets.	Preparers of financial statements need to identify only those assets that entities are required to recognise or disclose (either by a particular IFRS Standard or by applying the 'IAS 8 hierarchy'). Paragraph 4.26 clarifies that that the counterparty will not necessarily be required to recognise the assets referred to in paragraph 4.25. No further action proposed.
		Merge this paragraph with 4.26 to ensure that it is not read in isolation.	To consider in drafting. (It is important that the two paragraphs are read together but it is difficult to say yet whether merging the paragraphs would be the best way to achieve this outcome.)

Exposure Draft paragraph	Exposure Draft Text	Comment	Staff response
4.26	A requirement for one party to recognise a liability (or asset) and measure it at a specified amount does not imply that the other party must recognise the corresponding asset (or liability) or measure it at the same amount. ...	<p>The Basis for Conclusions should explain the reasoning for this paragraph. That discussion should be framed in the context of providing relevant information to the primary users and focus on control of any right to receive the resource.</p> <hr/> <p>This paragraph is not appropriately placed and should be moved.</p>	<p>Paragraph 4.26 already explains that the reasoning for this paragraph—the corresponding asset (or liability) should be recognised only if doing so meets the objectives of financial reporting. The objectives encompass relevance. No further action proposed.</p> <hr/> <p>Arguably these paragraphs (which address both assets and liabilities, and both their definitions and recognition) should be located elsewhere in Chapter 4 or in Chapter 5 <i>Recognition and Derecognition</i>. To consider in drafting.</p>
4.27	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.	Change 'must' to 'need only'.	This change would align the wording of paragraph 4.27 with the wording of the equivalent paragraph for assets (4.13). In the Exposure Draft, the wording of the two paragraphs was not consistent. We will consider in drafting the best way of making the wording consistent.
	It need not be certain, or even probable, that the	Explain the concept of a stand ready obligation.	We think the concept is adequately described in paragraph 4.27. No further action proposed.

Exposure Draft paragraph	Exposure Draft Text	Comment	Staff response
	<p>entity will be required to transfer an economic resource, but the obligation must already exist and there must be at least one circumstance in which it will require the entity to transfer an economic resource. One example of such an obligation is an obligation to stand ready to transfer an economic resource if an uncertain future event occurs.</p>	<p>Distinguish (somewhere) between contractual and non-contractual stand ready obligations. (A letter of support in favour of a subsidiary is a non-contractual obligation.)</p>	<p>Whether a letter of support is sufficient to create an obligation will depend on the facts and circumstances. Any obligation so created might be viewed as a contractual obligation. However, we do not think that the source of a stand-ready obligation (eg whether it is contractual, statutory or arises from some other mechanism) has any relevance for the concepts explained in this paragraph. No further action proposed.</p>
<p><b>4.28</b></p>	<p>[List of types of obligations that could be obligations to transfer an economic resource.]</p>	<p>This list should include obligations to refrain from activity, such as obligations assumed in non-compete agreements.</p>	<p>The conclusion to Illustrative Example 2.10 <i>Non-compete agreement</i> in Agenda Paper 10F for the November 2016 meeting is that such obligations do not meet the definition of a liability. So they should not be added to the list in paragraph 4.28. No further action proposed.</p>

Exposure Draft paragraph	Exposure Draft Text	Comment	Staff response
4.31	An entity has a present obligation to transfer an economic resource if both:	Reverse the order of the two criteria. An entity should identify the past event that may give rise to a transfer before considering whether it has the practical ability to avoid the transfer.	The Board tentatively decided in November 2016 to restructure the concepts, so that, rather than defining a present obligation, the <i>Conceptual Framework</i> will identify the two criteria set out in paragraph 4.31 as necessary characteristics of a liability. The ‘no practical ability to avoid’ criterion will be included in the discussion of the meaning of ‘obligation’ and the ‘benefits received or activities conducted’ criterion will be included in the discussion of the meaning of ‘a result of past events’. The order in which each of these two terms are discussed will be considered in drafting.
4.31(a)	(a) the entity has no practical ability to avoid the transfer; and	This criterion contradicts the statement in paragraph 4.27 that the transfer need not be probable. No practical ability to avoid is a much higher hurdle.	The discussion of probability is relevant for situations in which a transfer will be required only on the occurrence of an uncertain future event that is outside the control of the entity. Paragraph 4.31(a) means that the entity has an obligation if it has no practical ability to avoid a transfer, <i>if those future events occur</i> . Paragraph 4.27 clarifies that this will be the case even if it is not probable that the future event will occur. We will consider whether any drafting changes could make the interaction between the two paragraphs clearer. However, most respondents appear to have understood the interaction.



Exposure Draft paragraph	Exposure Draft Text	Comment	Staff response
		Should clarify that the entity must have no <u>right or</u> practical ability to avoid the transfer.	<p>In some cases, the entity might have a theoretical right to avoid a transfer, but not the practical ability to do so. An example would be a constructive obligation. The suggested amendment could imply that, because the entity has the right to avoid the transfer, it has no liability. So we do not think that this amendment would help convey the intended meaning of the concepts.</p> <p>However, it is a logical consequence of the proposed concepts that, if an entity has a right to avoid a transfer, and the practical ability to exercise that right, it has no obligation to make the transfer. It might be useful to make this point in the <i>Conceptual Framework</i>, because doing so would highlight another link between rights and obligations. To be considered in drafting.</p>
4.31(b)	(b) the obligation has arisen from past events; in other words, the entity has received the economic benefits, or conducted the activities, that establish the extent of its obligation.	The description fails to encompass liabilities that arise through inaction or through the actions of other parties.	<p>Liabilities could arise from, for example, failure to comply with particular legal requirements. But even those liabilities have an activity associated with them, for example operating without having complied with relevant requirements.</p> <p>Actions by third parties do not create obligations for an entity unless the entity has itself done something that means it is affected by the third party action.</p> <p>No further action proposed.</p>
		Should refer to receipt of an economic resource, not economic benefits. This would avoid implying that an entity must have received all the economic benefits that a resource will ultimately produce (eg that an entity has no liability to pay for inventory until it has sold the inventory).	<p>In this context, the economic benefits received by the entity might not necessarily be an economic resource. It could, for example, be relief from one obligation (received in exchange for a new obligation).</p> <p>Few respondents read ‘economic benefits’ to imply the ultimate economic benefit, ie cash. Paragraph 4.14 clarifies that economic benefits are not restricted to cash.</p> <p>No further action proposed.</p>

Exposure Draft paragraph	Exposure Draft Text	Comment	Staff response
		<p>The notion that an obligation has arisen from past events is linked to the concept of matching. Should refer to the matching concept in the discussion of the meaning of past event.</p>	<p>The revised <i>Conceptual Framework</i>, like the existing <i>Conceptual Framework</i>, will not identify matching as a concept. (Paragraph 5.8 notes that the recognition of assets or liabilities arising from transactions or other events sometimes results in the simultaneous recognition ('matching') of income and related expenses.) No further action proposed.</p>
4.32	<p>An entity has no practical ability to avoid a transfer if, for example, the transfer is legally enforceable, or any action necessary to avoid the transfer would cause significant business disruption or would have economic consequences significantly more adverse than the transfer itself.</p>	<p>'Significant business disruption' would be one cause of significantly more adverse economic consequences: they are not different examples.</p> <hr/> <p>Clarify that, if the action needed to avoid one transfer would result in a smaller transfer, the entity has a liability for the smaller transfer.</p>	<p>To be considered and addressed in drafting.</p> <hr/> <p>This is one another way of framing the proposed concept. It is an example of the concept expressed in another way. It is another way of saying that an entity has a liability for a (smaller) transfer if the only alternative is a significantly larger transfer (an example of an event with significantly more adverse consequences). We do not think there is a need to express this one concept in different ways. No further action proposed.</p>
4.34	<p>Many obligations are legally enforceable as a consequence of a contract, legislation or similar means.</p>	<p>The asset concepts (paragraph 4.20) refer to 'legal rights' not 'legally enforceable rights'. Amend the terminology in paragraphs 4.34 to be consistent with asset concepts.</p>	<p>To be addressed in drafting.</p>

Exposure Draft paragraph	Exposure Draft Text	Comment	Staff response
	<p>Obligations can also arise, however, from an entity's customary practices, published policies or specific statements that require the transfer of an economic resource.</p>	<p>Suggests that a new entrant to a market could not recognise constructive obligations in relation to an industry customary practice because those practices would not yet be that entity's customary practices.</p> <hr/> <p>Acknowledge that constructive obligations can arise from promises that the entity cannot avoid because of societal expectations or religious values. (This issue was raised by respondents focusing on Islamic finance.)</p>	<p>The <i>Exposure Draft</i> did not propose an exhaustive list of possible sources of obligations. It is possible that application of the 'no practical ability to avoid' criterion might in some circumstances result in an obligation being identified in the cases identified by the respondents. Further guidance could be developed at Standards level. No further action proposed.</p>
	<p>If the entity has no practical ability to act in a manner inconsistent with those practices, policies or statements the entity has an obligation.</p>	<p>Refer to the 'valid expectations' of another party (as set out in IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>).</p>	<p>In some circumstances, failing to meet expectations of another party might have such severe consequences that an entity might have no practical ability to avoid taking the action needed to meet those expectations. Discussing that particular <i>example</i> would provide no further insight into the general concept of having (or not having) the practical ability to act in a particular manner. No further action proposed.</p>
4.37	<p>[Example of an insurance contract, identifying the 'past event' as the receipt of a premium.]</p>	<p>Example is correct only if obligation to provide coverage arises only on receipt of premium. In some countries, insurers are obliged to pay claims even if premium has not been received.</p> <hr/> <p>The example is unclear. It is not clear whether the past event is the underwriting of the insurance or the occurrence of an insured event.</p>	<p>The example will be reconsidered during drafting. It was included to clarify the meaning of 'establish the extent of' an obligation. However, the Board has decided to change the description of a past event. The new wording is intended to be clearer and the insurance example might not be needed. If it is retained, the points raised by respondents will be considered in drafting.</p>

Exposure Draft paragraph	Exposure Draft Text	Comment	Staff response
4.39	<p>An entity does not have a present obligation for the costs that will arise if it will receive benefits, or conduct activities, in the future (for example, the costs of future obligations); the extent of the future transfer will not be determined by reference to benefits that the entity has received, or activities that is has conducted, in the past.</p>	<p>This paragraph is poorly drafted. It is difficult to understand what the Board is trying to communicate.</p> <hr/> <p>This sentence does not seem to make sense. Perhaps the word ‘and’ or ‘or’ is missing.</p>	<p>This sentence will be redrafted given the change in description of a ‘past event’. The respondents’ concerns will be considered in drafting.</p>