EFRAG

European Financial Reporting Advisory Group

EFRAG Questionnaire on the Proposed Definitions of an Asset and of a Liability

Summary of Responses

March 2016

Background

1 On 17 October 2015 EFRAG published a questionnaire on the definitions of an asset and of a liability proposed in the IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* ('the ED'). The purpose of the questionnaire was to "test" whether the proposed definitions were understandable. The test was carried out by asking whether some selected cases would result in something meeting various parts of the definitions.

2 The ED defined an asset as a present economic resource controlled by the entity as a result of past events. A liability was defined as a present obligation of the entity to transfer an economic resource as a result of past events. An economic resource was defined as a right that has the potential to produce economic benefits.

3 This document provides:

(a) A summary of the questionnaire;

(b) Information about respondents who completed (parts of) the questionnaire;

(c) A list of main issues identified; and

(d) A summary of the participants' assessments.

The questionnaire

4 The questionnaire asked for respondents assessments on the following parts of the definitions of assets and liabilities for the following cases:

Assets	Liabilities
Parts of the definitions tested	
• Is there a right? • Does the right have the potential to produce economic benefits? • Is the economic resource present? • Is the economic resource controlled by the entity? • Does the control arise as a result of past events?	• Is there an obligation to transfer an economic resource? • Is an obligation to transfer an economic resource present? • Is an obligation to transfer an economic resource arising from a past event?
Cases	
• A tax loss that can be deducted future taxable income • A lottery ticket • An improved market position resulting from commercials • A trained and assembled workforce • A lease agreement • An entitlement to increase tariffs in a rate-regulated industry	• A pre-funding mechanism in a rate-regulated industry • Future payments to legal advisors in a restructuring • Payments to a deposit guarantee scheme

5 The cases are further described in the questionnaire, which is available from the EFRAG website.

Respondents

6 EFRAG received 16 responses. Some respondents only provided their assessments to one or a few of the cases.

7 The table below shows the background of the respondents.

Respondents
Academics: 1
Auditors and association of auditors: 1
Financial statements users: 1
Financial statements preparers, advisors and associations of preparers: 11
Standard setters: 2

Main issues identified

The main issues identified by the questionnaire were:

- The term 'present' was interpreted differently by the respondents when the term was considered in relation to the definition of an asset.
- The respondents had different views of what and how many past events it was necessary to consider when assessing whether the control of an economic resource arose as result of past events.
- Respondents had different assessments about whether the economic resource related to a lottery ticket was controlled by the entity acquiring the lottery ticket. Some respondents noted that the entity did not have the present ability to deploy the ticket in order to win the prize.
- Respondents had different assessments about whether an improved market position had the potential to produce economic benefits. However, as most respondents did not consider that there was a right in relation to an improved market position, the different assessments did not affect the respondents' assessment of whether an improved market position would meet the definition of an asset.
- Respondents had different assessments about whether an assembled workforce resulted in a right of an entity. Some respondents considered that the entity did not have a right as the employees could leave the entity.
- Respondents had different assessments about whether the costs of legal advisors related to a restructuring resulted in an obligation to transfer an economic resource. One the one hand, some respondents noted that the entity had no practical ability to avoid the transfer. On the other hand, some respondents noted that there was not obligation as the counterparty could not be identified and as the entity had not received any economic benefits.
- Although respondents generally thought that the economic resource related to a lease agreement was controlled by the entity, their arguments for this assessment were different. Some focused on the entity's ability to sell the underlying assets while others focused on the cash flows that would result from the lease agreement.
- Respondents had different assessments about whether the deposit guarantee scheme resulted in an obligation to transfer an economic resource (for payments in future years).

Summary of assessments

Arrangement 1 – Deferred tax asset

The arrangement:

An entity's taxable income is negative in 20X1. The entity will not receive any money from the tax authorities, but it can deduct the loss from any profit it may have within the following ten years when calculating the taxable income. The entity cannot transfer this possibility to another entity. The budgets of the entity reflect that the entity will have a positive taxable income in four years (and the years following).

8 Twelve respondents provided their assessments on this arrangement. Eight thought that the arrangement as of 31 December 20X1 gave rise to an item that would meet all the criteria for an asset. Four respondents did not.

<u>*Is there a right?*</u>

9 To the question of whether there was a right, the answers were distributed as illustrated in the table below.

Is there a right?			
Yes 12	• There is a contract as there are rights to benefit from the obligation of another party to stand ready to transfer an economic resource if an uncertain future event occurs.(1) • There is another right that gives the entity the potential to receive future economic benefits that are not available to all other parties. (4) • There is a right established by legislation. (5) • There is a right if there is positive taxable income.(1) • The entity has an ability to direct the use. (1)	No 1	There is no contract, no constructive obligation and it is questionable whether there are other rights that give the entity the potential to receive future economic benefits that are not available to other parties.(1)

10 It appears that most respondents either thought the entity had a right established by legislation or another type of right that gives the entity the potential to receive future economic benefits that are not available to all other parties. The answers thus indicate that respondents had different views on whether there was a legislative right or another right. The different results can stem from the fact that the case did not specify whether the right to deduct the taxable income loss from future profit followed from the legislation or not. The respondents who did not think there was a right, did not think there was a contractual (and legislative) right and were unsure about whether there was another right that would give the entity the potential to receive future economic benefits that were not available to other parties.

<u>Does the right have the potential to produce economic benefits?</u>

11 On the question of whether the right (or the negative taxable income that could be deducted from future taxable profit) had the potential to produce economic benefits, the answers were distributed as illustrated in the table below.

Does the right (or the negative taxable income that can be deducted from future taxable profit) have the potential to produce economic benefits?			
Yes 11	• The economic benefits are receiving contractual cash flows or saving cash outflows. (11)	No 2	• The proposal requires potential assets to produce economic benefits. The negative taxable income cannot produce economic benefits in accordance with the proposal. (1) • The negative taxable income can only be used if there will be positive taxable income in the future. (1)

12 The respondents who thought that the right had the potential to produce economic benefits were consistent in what they assessed to be the economic benefits. Some of these respondents, however, noted that cost savings were not mentioned directly in the proposal, and one respondent did not assess that the wording of the proposal would consider cost savings to have the potential to produce economic benefits.

<u>Is the economic resource present</u>?

13 The 11 respondents who assessed that there was a right and this right had the potential to produce economic benefits were asked whether they assessed that the economic resource was present. The answers were distributed as illustrated in the table below.

Is the economic resource present?			
Yes 10	• It results from a past event and is ready for use. (1) • It has resulted from a past event (the loss). (1) • The tax legislation was enacted. (2) • The entity has a right it can use as soon as it has a profit. (3) • Financial statement users would use the information that the entity has tax loss it can carry forward. (1) • There is a right that has the potential to produce economic benefits. (1) • No argument provided. (1)	No 1	• The entity cannot use the negative taxable income until it has a profit. (1)

14 The responses show that respondents considered different factors when assessing whether the economic resource was present. In addition, several respondents noted

that the ED did not provide guidance on how an economic resource was present. The ED only provided guidance on the criterion in relation to liabilities.

Is the economic resource controlled by the entity?

15 The 11 respondents who assessed that there was a right and this had the potential to produce economic benefits (the 11 respondents that were also considered in paragraph 13 above) were asked whether they assessed that the economic resource was controlled by the entity. The answers were distributed as illustrated in the table below.

Is the economic resource controlled by the entity?			
Yes 9	• The entity can deploy the resource and de facto prevent any other party from benefiting from it. (1) • The entity can deploy the resource. (2) • The entity can prevent any other party from benefiting from it. (1) • The entity has the present ability to direct the use of the economic resource and obtain the economic benefits that flow from it and can prevent any other party from benefiting from it. (1) • The entity has the present ability to direct the use. (1) • The entity will obtain the economic benefits that flow from it. (1) • The entity will receive the economic benefits as a reduction in expenses. (1) • The economic resource depends on the performance of the entity which are reflected in the budgets. (1)	No 2	• The entity does not have the present ability to direct the use. (1) • The entity does not have a right to sell it and it is uncertain whether a buyer of the entire entity would pay more for the entity because of it. (1)

16 The respondents who assessed that the economic resource was controlled by the entity provided quite homogenous arguments, although they referred to different parts of the proposed guidance. The two respondents who assessed that the economic resource was not controlled by the entity focused on the entity’s current inability to receive cash inflows from the economic resource.

Does the control arise as a result of past events?

17 The 9 respondents who assessed that there was an economic resource controlled by the entity were asked whether they assessed that the control arose as a result of past events. The answers were distributed as illustrated in the table below.

Does the control arise as a result of past events?		
Yes 8	• The activities in the past that generated the negative taxable income constitute the past event. (6) • The negative taxable income. (1) • The negative taxable income and the enactment of the tax law that allows the entity to deduct the negative taxable income from future taxable profit. (1) • The entire past event of the entity and the history of the tax legislation. (1)	No 0

18 The respondents all assessed that the control arose from past events, but some respondents had a broader perspective of what the past events were than other respondents.

Arrangement 2 – Lottery ticket

The arrangement:

On 1 May 20X1 an entity purchases a lottery ticket. It is not allowed to resell the lottery ticket. The price of the lottery ticket was EUR 70. If the entity will win, it will receive EUR 500,000. Around 10,000 lottery tickets have been sold.

19 Thirteen respondents provided their assessments on this arrangement. Six thought that all the criteria for an asset were met as of 1 May 20X1, six did not and one was in doubt.

Is there a right?

20 On the question on whether there was a right, the answers were distributed as illustrated in the table below.

Is there a right?			
Yes 12	• There is a contract as there are rights to benefit from the obligation of another party to stand ready to transfer an economic resource if an uncertain future event occurs. (7) • There is an obligation of another party that gives the entity the potential to receive future economic benefits. (2) • There is at least one circumstance in which it would produce economic benefits. (1) • There is a right to participate in the lottery. (2)	No 1	There is no right as the lottery tickets are available for 10,000.

21 Most respondents thought there was a right. Among these, most noted that there was a contract as there were rights to benefit from the obligation of another party to stand ready to transfer an economic resource if an uncertain future event would occur. Other respondents who thought there was a right provided other reasons, but these other reasons were not in conflict with the assessment that the right resulted from a contract. One respondent did not think there was a right as a lottery ticket would also be available to 9,999 others.

<u>Does the right have the potential to produce economic benefits?</u>

22 On whether the right (or the lottery ticket) had the potential to produce economic benefits, the answers were distributed as illustrated in the table below.

Does the right (or the lottery ticket) have the potential to produce economic benefits?			
Yes 10	• There is at least one circumstance in which it would produce economic benefits (if the lottery ticket is the winning ticket) in the form of receiving contractual cash flows. (2) • There is at least one circumstance in which it would produce economic benefits (if the lottery ticket is the winning ticket) although the economic benefit produced by the economic resource is not mentioned in the guidance. (1) • There is at least one circumstance in which it would produce economic benefits (if the lottery ticket is the winning ticket). (7)	No 3	• The lottery ticket cannot “produce” economic benefits (it can only result in). (1) • There is only a remote chance of winning and the ticket cannot be sold. (1) • No arguments provided. (1)

23 Respondents generally thought that the lottery ticket had the potential to produce economic benefits as it could be the winning ticket. One of the respondents who did not think the lottery ticket had the potential to produce economic benefits noted that if another word than “produce” had been used, the provided assessment of the respondent would likely have been different.

Is the economic resource present?

24 The 10 respondents who assessed that there was a right and that this had the potential to produce economic benefits were asked whether they assessed that the economic resource was present. The answers were distributed as illustrated in the table below.

Is the economic resource present?			
Yes 9	• The ticket exists. (1) • The entity has the ticket. (1) • No reason provided. (1) • The economic resource exists. (1) • The lottery ticket gives access to the right to potentially winning the prize. (2) • The right is existing.(1) • People would not be indifferent between having and not having the lottery ticket. (1) • The lottery draw has not yet occurred.(1)	No 1	• The entity cannot sell the ticket. (1)

25 The responses show that respondents considered many different things when assessing whether the economic resource was present. In addition, a respondent noted that the proposal did not provide guidance on how an economic resource was present. The proposal only provided guidance on the criterion in relation to liabilities.

Is the economic resource controlled by the entity?

26 The 9 respondents who assessed that there was a right and this had the potential to produce economic benefits were asked whether they assessed that the economic resource was controlled by the entity. The answers were distributed as illustrated in the table below.

Is the economic resource controlled by the entity?			
Yes 6	• The entity can direct the use and prevent any other party from benefiting from it. (2) • The entity will obtain the economic benefits that flow from it. (2) • The entity will obtain the economic benefits that flow from it and the entity can direct the use and prevent any other party from benefiting from it. (1) • The entity has physical possession of the ticket. (1)	No 3	• The entity does not have the present ability to deploy the ticket in order to win the prize. (2) • No argument provided. (1)

27 One respondent was uncertain as on the one hand it could be argued that the resource (the actual ticket) would either produce economic benefits (a prize) or be worthless (the ticket is not entitled to a prize). If the ticket was drawn the entity would be the party that would entitled to the prize. In that sense, the entity controlled the economic resource. However, if the actual ticket was disregarded and the entity's chance of winning the prize was considered the potential asset, the respondent did not assess that the entity had control as the economic benefits from the resource would likely flow to another entity.

28 The responses show that the respondents who thought that the economic resource was controlled, had similar arguments. However, relatively many respondents assessed that the economic resource was not controlled (because the entity could not use it to win the prize) or were in doubt about the conclusion.

Does the control arise as a result of past events?

29 The 7 respondents who assessed that there was an economic resource controlled by the entity (6) (or were in doubt about this (1)) were asked whether they assessed that the control arose as a result of past events. The answers were distributed as illustrated in the table below.

Does the control arise as a result of past events?			
Yes 7	• The past event is the acquisition of the ticket. (6) • The past events are: the acquisition of the ticket, the setting up of the lottery and the determination of the terms and conditions, the legislative history that legalised gambling and allowed the entity to have confidence that its rights as expressed on the ticket will be honoured. (1)	No 0	

30 The respondents all assessed that the control arose from past events. Most assessed that the purchase of the ticket was the past event, but one respondent had a broader perspective of what the past events were.

Arrangement 3 – Improved market position

The arrangement:

An entity has spent money on commercials (that have all been shown). As a result, its market share has increased from 17 percent (1 January 20X1) to 25 percent (31 December 20X1). The entity is running some supermarkets and does not have a customer register.

31 Thirteen respondents provided their assessments on this arrangement. One thought that all the criteria for an asset were met as of 31 December 20X1. Ten did not.

<u>Is there a right</u>

32 On whether there was a right, the answers were distributed as illustrated in the table below.

Is there a right?			
Yes 1	• The purchase of commercials gives the right to the entity to have its products and services advertised at certain conditions and through certain media with the expectation of getting future benefits from a certain marketing action. (1)	No 12	• Not possible to identify a right based on the criteria. (7) • Nothing enforceable to get customers to shop at the stores. (1) • There is neither a legal nor a constructive obligation for the customer. (1) • The entity does not have a customer register. (1) • The right does not provide the entity the potential to receive economic benefits.(1) • Because the proposed definition was so open, it was necessary to include an addition criterion that an asset should be required to have a certain future financial influence in next periods. (1)

33 Most respondents did not assess there was a right based on the criteria listed and their arguments were relatively homogenous. One of the respondents, who did not think there was a right, seemed to conclude so based on some additional requirements the respondent added (but that were not specified in the proposals). It could therefore be argued that this respondent should be regarded as one assessing that there was a right (the respondent argued that according to the proposed definition almost all expenses are assets as all expenses are necessary for the entity's activity in the search for economic benefit). The respondent that thought there was a right, seemed to focus on a right to have the products and services advertised.

Does the right have the potential to produce economic benefits?

34 On whether the right (or, if they did not think there was a right, the improved market position) had the potential to produce economic benefits, the answers were distributed as illustrated in the table below.

Does the right (or the improved market position) have the potential to produce economic benefits?			
Yes 5	• It has the potential to produce economic benefits. (5)	No 4	• Since it is not a right. (1) • It is not an economic resource as the future economic benefits that can be derived from it is not an existing right. (1) • The right does not give the entity the potential to produce economic benefits. (1) • The right cannot be sold and does therefore not have the potential to produce economic benefits. (1)

35 Three respondents who had provided an assessment of whether there was a right did not respond to the question on whether the improved market position has the potential to produce economic benefits.

36 One respondent was in doubt. However, the respondent noted that the improved market position had the potential to produce economic benefits as a result of an increase in the number of customers.

37 The results show that respondents had different views on whether there was a potential to produce economic benefits when a right or an economic resource could not be identified.

Is the economic resource present?

38 The respondent who assessed that there was a right that had the potential to produce economic benefits assessed that the economic resource was present as a result of the marketing efforts.

Is the economic resource controlled by the entity?

39 The respondent who assessed that there was a right that had the potential to produce economic benefits assessed that the economic resource was controlled by the entity, as the entity could direct its use towards the production of economic benefits flowing to the entity by setting the advertisement campaign in a way that would make it likely to result in an increase in the market share.

Does the control arise as a result of past events?

40 The respondents who assessed that there was an economic resource controlled by the entity assessed that the control arose as a result of past events. The past event was the purchase of the commercials that entitled the entity to obtain benefits from the right itself.

Arrangement 4 – Assembled workforce

The arrangement: In order to operate its business, an entity has a trained and assembled workforce.

41 Thirteen respondents provided their assessments on whether this arrangement resulted in an asset (the trained and assembled workforce) in accordance with the proposed definition of an asset. Five thought that all the criteria for an asset were met. Eight did not.

Is there a right

42 On whether there was a right, the answers were distributed as illustrated in the table below.

Is there a right?			
Yes 8	• There is a right established by contracts with each employee. (4) • There is a right established by contracts and law. (1) • There is another right that gives the entity the potential to receive future economic benefits that are not available to all other parties. (2) • The entity has know-how. (1)	No 5	• Assuming that the employees can leave the company, there is no right in accordance with the proposals. (5)

43 The responses show that in the case of an assembled workforce, the respondents had different interpretations of the requirements in respect to whether there was a right or not – and if there was a right, how this was established. It should thus be noted that one of the respondents who thought that there was "another right that gives the entity the potential to receive future economic benefits" specifically mentioned that the contractual right with each employee was not the right related to the assembled workforce. However, because of these contracts with each employee, there could be this "other right".

Does the right have the potential to produce economic benefits?

44 Eleven respondents provided their assessment on whether the right (or the assembled workforce) had the potential to produce economic benefits, the answers were distributed as illustrated in the table below.

Does the right (or the assembled workforce) have the potential to produce economic benefits?	
Yes 11	• The right has the potential to produce economic benefits by producing cash flows.(5) • It enables the entity to increase the volume of goods and services produced and sold.(1) • The entity can save costs or increase turnover.(1) • It has the potential to provide economic benefits in terms of work contributions of human resources in the work process. (3) • Hopefully the company will derive economic benefits from employing staff.(1)

45 Respondents generally assessed whether the assembled workforce had the potential to produce economic benefits homogenously. It was assessed that the assembled had the potential to produce economic benefits as it could be used to produce cash flows.

Is the economic resource present?

46 The 8 respondents who assessed that there was a right and this had the potential to produce economic benefits were asked whether they assessed that the economic resource was present. The answers were distributed as illustrated in the table below.

47 The responses show that although the respondents agreed that the economic resource was present, they considered many different things when assessing whether the economic resource was present. In addition, a respondent noted that the proposal did not provide guidance on how an economic resource was present. The proposal only provided guidance on the criterion in relation to liabilities.

Is the economic resource present?			
Yes 8	• There are contracts with the employees and the entity is deploying the economic resource. (1) • To the extent that the contracts with the employees are effective. (2) • The workforce is available.(1) • The entity has trained and assembled the workforce to operate the business.(1) • There are contracts with the employees, the right is owned by the entity, it has the potential to produce economic benefits and is owned by the entity when the contract becomes effective. (1) • Most people would not be indifferent between having the assembled workforce or not at the balance sheet date.(1) • No reason provided. (1)	No 0	

Is the economic resource controlled by the entity?

48 The 8 respondents who assessed that there was a right and this had the potential to produce economic benefits were asked whether they assessed that the economic resource was controlled by the entity. The answers were distributed as illustrated in the table below.

Is the economic resource controlled by the entity?			
Yes 5	• The entity can direct the use of the workforce and has the ability to deploy the economic resource in its activities. The contract of employment represents a legal right and (usually) the contract prevents the employee from working for another entity.(1) • The entity can direct the use of the workforce. However, the entity does not have the total control over employees who can leave the entity at any time.(1) • The entity can direct the use of the workforce.(3)	No 1	• The right only exists as long as the workforce does not leave. (1)

49 The responses from two respondents were not included in the table above, as the respondents were uncertain. It was noted that on the one hand the economic benefits produced by the entity would be received by the entity (which would indicate

that the resource would be controlled by the entity). On the other hand the entity could not prevent the employee to leave the entity (after any notification period).

50 The responses show that respondents had different assessments of how the fact that the employees could leave the entity would affect the control.

Does the control arise as a result of past events?

51 Respondents who assessed that there was an economic resource controlled by the entity (or were in doubt about this) were asked whether they assessed that the control arose as a result of past events. The answers were distributed as illustrated in the table below.

Does the control arise as a result of past events?		
Yes 7	• The past event is the acceptance of the various employment contracts. (2) • The past event is when an employee starts working for the entity. (1) • The past events are the training courses and the recruitment process. (4)	No 0

52 The respondents all assessed that the control arose from past events, but had different views of what the past events were.

Arrangement 5 – A lease agreement (from the lessor's perspective)

The arrangement:

On 1 May 20X1 a lessor enters into a leasing agreement with a customer. The customer will lease a building of the lessor for 10 years. The lessor will earn a profit on this arrangement.

53 Thirteen respondents provided their assessments on this arrangement. Ten thought that all the criteria for an asset were met as of 1 May 20X1. Three did not.

Is there a right?

54 On whether there was a right, the answers were distributed as illustrated in the table below.

55 Although the arguments from the respondents were worded differently, most assessed that there was a right based on a contract.

Is there a right?			
Yes 12	• There is a right established by contract to exchange economic resources with another party on favourable terms. (7) • There is a contractual right to receive cash flows and profit. (2) • The leasing agreement represents the economic resource controlled by the entity. (1) • The lease agreement represents a right. (2)	No 1	• The leasing agreement does not create a different asset from the original asset the entity owned. (1)

Does the right have the potential to produce economic benefits?

56 Twelve respondents provided their assessment on whether the right (or the lease agreement) had the potential to produce economic benefits, the answers were distributed as illustrated in the table below.

Does the right (or lease agreement) have the potential to produce economic benefits?	
Yes 12	• The economic benefits produced are the contractual cash flows the entity will receive. (10) • The economic benefits produced are the contractual cash flows the entity will receive and the cash flows from the leased asset. (1) • The lease agreement is profitable. (1)

57 The respondents who provided their assessment of whether the right (or the lease agreement) has the potential to produce economic benefits came to the same conclusion.

Is the economic resource present?

58 The respondents who assessed that there was a right and this had the potential to produce economic benefits were asked whether they assessed that the economic resource was present. The answers were distributed as illustrated in the table below.

Is the economic resource present?			
Yes 11	• The lease contract has been signed. (4) • The lessor has no practical ability to avoid the transfer of the right to use the leased asset. Therefore the lessor has a present right to receive contractual cash inflows. (1) • No argument provided. (1). • The leased asset exists and the lessee's obligation to pay exists. (1) • The leasing period has started. (2) • Signing the lease contract results in the entity being in another position than if the contract had not been signed. (1) • There is an economic resource consisting of the net present value of the contractual cash flows and the residual value. (1)	No 1	The resource will not be present until the lessee is using the building. (1)

59 The responses show that although the respondents generally agreed that the economic resource was present, they considered many different things when assessing whether the economic resource was present. In addition, two respondents noted that the proposal did not provide guidance on how an economic resource was present. The proposal only provided guidance on the criterion in relation to liabilities.

Is the economic resource controlled by the entity?

60 The 11 respondents who assessed that there was a right and this had the potential to produce economic benefits were asked whether they assessed that the economic resource was controlled by the entity. The answers were distributed as illustrated in the table below.

61 The responses show that the respondents had homogenous assessments about whether the economic resource was controlled, but had slightly different arguments to support the assessments.

Is the economic resource controlled by the entity?			
Yes 11	• The entity can direct the use of the asset as it can allow another party to deploy the economic resource in its own activities. In addition, the economic benefits flow to the entity and to no other party. (1) • The entity can decide to hold the lease contract to receive the contractual cash flows or transfer the rights to receive the cash flows to another party. No other parties have the rights to the cash flows. (1) • The entity has the present ability to direct the use of the economic resource and obtain the economic benefits that flow from it. (3) • The entity has a present ability to obtain economic benefits. (1) • The agreement will generate cash inflows that the entity will deploy in its activities. (1) • No argument provided. (1) • The entity has the ability to terminate the contract. (1) • Lessor could sell the building and transfer the lease which evidences control. (1) • There is an agreement. (1)	No 0	

<u>Does the control arise as a result of past events?</u>

62 Respondents who assessed that there was an economic resource controlled by the entity (or were in doubt about this) were asked whether they assessed that the control arose as a result of past events. The answers were distributed as illustrated in the table below.

Does the control arise as a result of past events?			
Yes 10	• The past event is the signing of the lease agreement. (7) • The past event is the construction of the leased asset. (1) • No argument provided. (1) • The past event is the agreement process leading to the contract. (1)	No 1	• The lease agreement has not been entered into as of the date of the assessment. (1)

63 Generally, the respondents assessed that the past events were related to the lease agreement.

Arrangement 6 – Rate regulation, entitlement to increase tariffs

The arrangement:

An entity operates in defined rate regulation. In other words, the entity delivers goods or services in a monopoly market that are considered essential by the customer. In defined rate regulation, the role of the rate regulator is to protect customers by ensuring the stability and quality or goods or services and at the same time ensuring that the entity is fairly remunerated for delivering those goods or services. The rate regulator establishes a payment mechanism reflected in the regulatory agreement through a revenue requirement which is translated into a tariff per unit that the entity is entitled to charge its customers.

The entity is entitled to earn an amount of revenue in 20X1 for goods or services it provides. In 20X1 the entity incurs an 'unexpected' repair cost that does not qualify for recognition as an asset under IFRS. Under the agreement with the rate regulator, the entity is obliged to undertake the repair. The entity is also entitled to increase the tariff per unit in 20X2 in order to 'recover' the 'unexpected' repair cost it incurred in 20X1.

64 Fourteen respondents provided their assessments on this arrangement. Ten thought that all the criteria for an asset were met as of 31 December 20X1. Two did not.

Is there a right?

65 On whether there was a right, the answers were distributed as illustrated in the table below.

Is there a right?			
Yes 13	• There is another right that gives the entity the potential to receive future economic benefits that are not available to all other parties. (1) • There is a contractual right to increase the tariffs. (6) • There is a right established by the legislation. (2) • There is a right established by the regulation. (2) • The regulator has a constructive obligation from the regulator which creates a right for the entity to increase the tariffs. (1) • There is a right as long as it is probable that the entity will recover the repair cost through future revenue. (1)	No 1	• Although the entitlement to increase tariffs is highly likely to result in a recovery of the costs, it is not a right to have the costs recovered. The entitlement is not much different from an entitlement to operate. (1)

66 In the description it is not mentioned whether the entitlement to increase the tariffs results from a contract between the entity and the tariff regulator or the legislation.

Different answers could therefore be expected on this. While most of the respondents who think there is a right focus on the tariff increase, the respondent who did not think there is a right focused on the recovery of the costs.

Does the right have the potential to produce economic benefits?

67 On whether the right (or the lease agreement) had the potential to produce economic benefits, the answers were distributed as illustrated in the table below.

Does the right (or the entitlement to increase the tariff) have the potential to produce economic benefits?			
Yes 13	• The economic benefits produced are the contractual cash flows the entity will receive. (1) • The economic benefits produced are generated by using the economic resource to produce cash inflows by using the resource to enhance the value of other economic resources.(1) • There is at least one circumstance in which it would produce economic benefits by exchanging economic resources on favourable terms (as there will be at least one customer). (1) • The increase in the next year's income is an economic benefit. (1) • There is at least one circumstance in which it would produce economic benefits by receiving contractual cash flows. (2) • The recovery of the repair costs is the potential to produce economic benefits. (1) • The potential to generate higher revenue is the economic benefits. (3) • The higher tariff is the economic benefits. (1) • The economic benefits are the increased cash flows from customers. (2)	No 1	• It only gives the entity right to have its costs recovered. (1)

68 The responses show that respondents had homogenous assessments of whether the right would have the potential to produce economic benefits. However, there were different assessments of what these economic benefits were. The respondent who did not think that the right had the potential to produce economic benefits did not consider a right to have cost recovered to be an economic benefit.

Is the economic resource present?

69 In total, 12 respondents assessed that (a) there was a right and (b) this right had the potential to produce economic benefits. These 12 respondents were asked whether they assessed that the economic resource was present. Eleven of the answers were distributed as illustrated in the table below.

Is the economic resource present?			
Yes 10	• The fact that the entity has held the repair cost as a past event makes the right to receive compensation present. (3) • The fact that the entity has held the repair cost as a past event and can be assumed to be a going concern makes the right to receive compensation present. (1) • The fact that the regulation is in place and the entity has performed what it need in order to entitled to increase the tariff makes the right present. (1) • The fact that the entity will not be indifferent on the balance sheet date about whether it is entitled or not to increase the tariffs makes the economic resource present. (1) • The fact that the entity has the right to receive cash flows in the future based on the agreement with the rate regulator makes the economic resource present. (1) • No argument provided. (3).	No 1	• The economic resource is not present as the entity will have to deliver services to the customer in order to be able to charge the increased tariffs. (1)

70 One respondent was in doubt.

71 The responses show that most respondents agreed that the economic resource was present. However, there were some differences in how they assessed whether the economic resource was present.

Is the economic resource controlled by the entity?

72 The 12 respondents who assessed that (a) there was a right and (b) this right had the potential to produce economic benefits were asked whether they assessed that the economic resource was controlled by the entity. The answers were distributed as illustrated in the table below.

73 The responses show that the respondents had homogenous assessments about whether the economic resource was controlled, but had slightly different arguments to support the assessments.

Is the economic resource controlled by the entity?			
Yes 11	• No other party can benefit from the economic resource as the entity is operating in a monopoly. (1) • The entity can increase the 20X2 tariff. (1) • It is the entity that decides whether to increase the tariffs. The legislation only permits it to do so.(1) • The entity can deploy the right and will collect the higher revenues. (2) • The entity can prevent other parties from directing the use of the right to increase its tariffs and the entity is entitled to increase its tariffs which will benefit the entity and no other party.(1) • The entity operates in a regulated market. (1) • The entity can direct the use of the economic resource. (1) • The entity is charging the customers the increased tariffs. (1) • The exiting right has arisen as a result of the repair. (1) • No argument provided. (1)	No 1	• The economic resource is not controlled as the entity will have to deliver services to the customer in order to be able to charge the increased tariffs. (1)

<u>Does the control arise as a result of past events?</u>

74 Respondents who assessed that there was an economic resource controlled by the entity were asked whether they assessed that the control arose as a result of past events. The answers were distributed as illustrated in the table below.

Does the control arise as a result of past events?	
Yes 11	• The past events are the repair (and the costs incurred in relation to this) and the agreement with the regulator to obtain compensation. (6) • The past events are the commitment to the repair and the agreement. (1) • The past event is the finalisation of the repair. (1) • The past event is the market regulation. (3)

75 The respondents had different assessments about whether the past event(s) was the repair, the agreement with the regulator or both.

Arrangement 7 – Rate regulation, pre-funding mechanism

The arrangement:

A defined rate regulated entity (see paragraph **Error! Reference source not ound.** above) is entitled to earn an agreed amount of revenue in 20X1 for goods or services it provides. This amount includes a specific amount which the entity is entitled to receive in advance (a sort of pre-funding mechanism) in order to undertake a major repair in 20X2. The 'higher' revenue the entity is entitled to earn in 20X1 is limited to 20X1 (thereafter the entity will revert to the 'normal' agreed revenue.)

76 Fourteen respondents provided their assessments on this arrangement. Eleven thought that all the criteria for a liability were met as of 31 December 20X1 and one did not. Two respondents were in doubt.

<u>Is there an obligation to transfer an economic resource?</u>

77 On whether there was an obligation to transfer an economic resource, the answers were distributed as illustrated in the table below.

Is there an obligation to transfer an economic resource?			
Yes 11	• The entity has no practical ability to avoid the transfer (because of the regulation it will have to perform the repair) and the entity has received the economic benefits (the payments). (11)	No 1	• There is only an obligation to change economic resources, which may not be unfavourable for the entity (cash for a repair). There is no obligation to transfer economic resources. (1)

78 Two respondents were in doubt.

79 The results show that most of the respondents thought there was an obligation to transfer an economic resource as it was assessed that the entity did not have a practical ability to avoid the transfer.

<u>Is an obligation to transfer an economic resource present?</u>

80 The respondents (11) who assessed that there was an obligation to transfer an economic resource, or were in doubt (2), were asked whether they assessed this obligation to be present. The answers were distributed as illustrated in the table below.

Is the obligation to transfer an economic resource present?			
Yes 13	• The entity has no practical ability to avoid the transfer (because of the regulation it will have to perform the repair) and the entity has received the economic benefits (the payments).(12) • No argument provided. (1)	No 0	

81 The results show that the respondents who thought that (or were in doubt) had homogenous assessments about whether the obligation was present.

<u>Is an obligation to transfer an economic resource arising from a past event?</u>

82 The respondents who assessed that there was an obligation to transfer an economic resource were asked whether they assessed that this obligation arose from a past event. The answers were distributed as illustrated in the table below.

Has the obligation to transfer an economic resource arisen from a past event?	
Yes 13	• The entity has no practical ability to avoid the transfer (because of the regulation it will have to perform the repair) and the entity has received the economic benefits (the payments).(1) • The receipt of the advance payments is the past event. (7) • The receipt of the advance payments and the regulatory agreement are the past events. (1) • The regulatory agreement is the past event. (3) • The entitlement to receive an amount in advance is the past event. (1)

83 The results show that respondents had homogenous assessments of whether there had been a past event. However, respondents had different assessments of whether the receipt of the advance payments or the regulatory agreement (or both) was the past event.

Arrangement 8 – Future payments to legal advisors in a restructuring

> The arrangement:
>
> In 20X1 an entity has announced, initiated and is committed to a restructuring as it cannot continue as a going concern without such a restructuring. Services from legal advisors are necessary in order to be able to carry out the restructuring. However, the entity has not yet determined what legal advisors to use.

84 Thirteen respondents provided their assessments on this arrangement. Six thought that all the criteria for a liability were met as of 31 December 20X1. Seven did not.

<u>Is there an obligation to transfer an economic resource?</u>

85 On whether there was an obligation to transfer an economic resource, the answers were distributed as illustrated in the table below.

86 The responses show that the respondents had different assessments about whether there was an obligation to transfer an economic resource and had different arguments for their assessments. Some of the differences among the respondents who did not think there was an obligation could, however, stem from the fact that some respondents were unsure about whether the question only related to the costs of the legal advisors or to general restructuring costs.

Is there an obligation to transfer an economic resource?			
Yes 8	• No reason provided. (1) • The entity's commitment result in an obligation. (1) • The entity has no practical ability to avoid the transfer. (3) • It is a constructive obligation. (1) • An implicit obligation arises from the announcement of the restructuring. (1) • Restructuring is defined. (1)	No 5	General restructuring costs: • The entity has not received any economic benefits. (1) • There is no past event. (1) Legal advisors: • There is no obligation to transfer an economic resource as the counterparty cannot be identified. (2) • There is only an obligation to change economic resources, which may not be unfavourable for the entity (cash for a service) not to transfer economic resources. (1)

<u>Is an obligation to transfer an economic resource present?</u>

87 The eight respondents who assessed that there was an obligation to transfer an economic resource were asked whether they assessed this obligation to be present. The answers were distributed as illustrated in the table below.

Is the obligation to transfer an economic resource present?			
Yes 7	• The announcement has been made and the restructuring programme commenced. (2) • The entity has no practical ability to avoid paying the legal advisors as it cannot otherwise continue as a going concern. (5)	No 1	• No activities have been performed. (1)

88 Respondents considered different factors when assessing whether the obligation was present. Some focused on whether the entity had made an announcement and initiated the restructuring while others focused on the fact that it was not practically possible for the entity not to pay the legal advisors if the entity should continue as a going concern. One respondent did not think there would be a present obligation until the legal advisors had provided some services.

<u>Is an obligation to transfer an economic resource arising from a past event?</u>

89 The respondents who assessed that there was an obligation to transfer an economic resource were asked whether they assessed that this obligation arose from a past event. The answers were distributed as illustrated in the table below.

90 The results show that the respondent had different assessments of whether there was a past event, and if so, what the past event was.

Has the obligation to transfer an economic resource arisen from a past event?			
Yes 5	• The service provided in the past by the employees is the past event. (1) • The entity's commitment to the restructuring is the past event. (3) • The past loss is the past event. (1)	No 2	• The entity has not received economic benefits yet. (1) • No reason provided. (1)

Arrangement 9 – Deposit guarantee scheme

The arrangement:

A financial institution has to contribute to a deposit guarantee scheme ('the DGS'). The purpose of the scheme is to cover certain losses depositors would otherwise incur if the financial institution would not be able to repay the amounts. The DGS should over a period of ten years collect funds from the affiliated member institutions. The total of the accumulated funds collected should after ten years correspond to 0.08% of the deposits covered by the DGS that are held by these member institutions.

[details about the scheme are found in the questionnaire, the yearly payment includes a fixed amount]

In November 20X1 the DGS determines the contribution from the affiliated member institutions, which will have to be paid by 31 December 20X1. The amount to be paid by an affiliated member is calculated based on the covered deposits held by that member as of 1 September 20X1 and the aggregated risk weight for that member as of 1 September 20X1. It is the first year of the DGS. Accordingly, after receiving these contributions the DGS will hold around 10 percent of its target level.

The questions in the questionnaire relates to how the contribution the financial institution will have to pay by 31 December 20**X3**, should be assessed as of 1 January 20**X2**:

91 Ten respondents provided their assessments on this arrangement. Four thought that all the criteria for a liability were met as of 1 January 20X2 for the contribution the financial institution will have to pay by 31 December 20X3. Five did not.

<u>Is there an obligation to transfer an economic resource?</u>

92 On whether there was an obligation to transfer an economic resource, the answers were distributed as illustrated in the table below.

93 The responses show that the assessments of the respondents on this issue were not homogeneous.

Is there an obligation to transfer an economic resource?			
Yes 7	• No reason provided. (2) • The entity has an obligation to transfer at least the minimum contribution determined by law. (3) • The entity has an obligation related to the fixed-term deposits it will hold in 20X3. (1) • The entity has an obligation related to the fixed-term deposits it will hold in 20X3 and the minimum contribution determined by law. (1)	No 3	• No reason provided. (1) • The past event occurs each period. (1) • There is only an obligation to exchange economic resources, which may not be unfavourable for the entity (cash for a permission to continue operating – which the payment could be regarded as). There is accordingly not an obligation to transfer economic resources. (1)

<u>Is an obligation to transfer an economic resource present?</u>

94 The respondents who assessed that there was an obligation to transfer an economic resource were asked whether they assessed this obligation to be present. Six of the answers were distributed as illustrated in the table below.

Is the obligation to transfer an economic resource present?			
Yes 5	• The entity cannot avoid the transfer if it should continue to operate. (5)	No 1	• There have been no past events that have resulted in the obligation being present. (1)

95 One respondent was in doubt.

96 The respondents had slightly different answers about whether it was only the fixed contribution that was present or if, for example, the contribution related to the fixed term deposits was also variable. This is not reflected in the table above as the question did not address this issue which was accordingly not considered by all respondents. The assessment

<u>Is an obligation to transfer an economic resource arising from a past event?</u>

97 The respondents who assessed that there was an obligation to transfer an economic resource (or were in doubt) were asked whether they assessed that this obligation arose from a past event. The answers were distributed as illustrated in the table below.

Has the obligation to transfer an economic resource arisen from a past event?			
Yes 5	• For the fixed-term deposits the past event is when those deposits were made. (3) • For the minimum payments, the past event was when these were decided in the law. (1) • The past event is that the entity has been in business. (1)	No 1	• The benefits have not been received. (1)

98 Those respondents that focused on the contribution relating to the fixed-term deposits focused on when these had been made. The respondent who focused on the minimum payments focused on when these had been decided by law. In addition, one respondents thought the past event was that the entity had been in the business subject to the DSG requirement. The different assessments among those who answered ‘Yes’ could thus result from respondents’ different focuses on the different elements in the arrangement rather than a different interpretation of the definition.

Additional questions

99 The questionnaire also asked respondents whether they would have reach another conclusion in relation to some of the arrangements if the current definitions of assets and liabilities had been used.

100 The following differences (and other issues) were observed by the respondents:

(a) Two respondents would not assess that a lottery ticket would meet the current definition as future economic benefits could not be *expected* to flow to the entity. The respondents assessed that a lottery ticket could meet the proposed definition.

(b) One respondent thought that the proposed definition’s reference to “present” made it more difficult to assess whether an assembled workforce would meet the definition of an asset. The respondent thought that a workforce that had not started working could not be considered as a “present” economic resource. Under the current definition, the respondent thought that it could more easily be concluded that a signed contract with an employee was an economic resource controlled by the entity.

(c) Two respondents thought that it was easier under the proposed definitions to conclude that the entitlement to increase tariffs in Arrangement 6 would be an asset as the proposal, contrary to the current definition, focused on rights.

(d) One respondent thought that it was easier under the proposed definition to conclude that the future repair in Arrangement 7 would be a liability. One respondent thought that the proposal could result in an earlier identification of a liability than the current definitions. The respondent was thus not certain that it was necessary that the entity had received advance payments before the future repair would meet the definition of a liability.

(e) One respondent thought that restructuring provisions would easier meet the current definition of a liability as the current description refers to the entity’s “responsibility” to act or perform in a certain way. The reference in the proposal to “existing” obligations was narrower.

(f) One respondent thought that the proposal could result in an entity having to recognise a liability for several years’ payments to a deposit guarantee scheme. The respondent did not think that this would be the outcome of the current definition.

(g) One respondent noted that according to the current definition of an asset, things that would result in cost savings could be considered assets. This did not appear to be the case from the proposed definition of an asset.

(h) One respondent noted more generally that the different definitions were more likely to result in different outcomes than the current definitions.

(i) One respondent supported the update and the clarification in relation to the definitions. The respondent, however, still considered the proposed definition to be quite vague in some respects (e.g. with respect to ‘control’).

(j) One respondent did not support the new definitions as the IASB had not tested them to determine the impact. The respondent was particularly concerned about years of future payments to a deposit guarantee scheme would meeting the definition of a liability.

(k) One respondent was generally concerned that the proposed definitions were not sufficiently clear.

(l) One respondent was concerned that according to the proposed definitions it was only necessary that the economic resource existed and there was at least one circumstance in which it would produce economic benefits. The respondent thought that this would lead to a wide and onerous recognition of items. The respondent thought that the IASB should consider an element of probability of inflows or outflows as a qualifying criteria for an asset and a liability.