

MINUTES



To: Board Members
From: Project Team (Beckendorff x229)
Subject: Minutes of the October 17, 2007
Conceptual Framework Board Meeting **Date:** October 18, 2007
cc: Leisenring, Bielstein, Golden, MacDonald, Allen, Polley, Glotzer,
Klimek, Lott, Gabriele, Sutay, Project Team, FASB Intranet, Upton,
Hickey, Crook, Lian, Hague, Villmann, Willis, GASB: Reese, Patton

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Topic: Phase B: Elements and Recognition

Basis for Discussion: Memorandum Nos. 66A-C

Length of Discussion: 8:00 a.m. to 8:45 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Linsmeier, Seidman,
Smith, and Young

Staff in charge of topic: Ian Hague

Other staff participating: L.T. Johnson, Bossio, Bielstein, Beckendorff,
Chesney and Villmann

Summary of Decisions Reached:

The Board continued its discussions of a working definition of an asset—“An asset is a present economic resource to which the entity has a present right or other privileged access”—to replace the existing definition of an asset—“Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.”

The Board tentatively decided to:

- a. Focus the definition of an asset on a present economic resource, rather than on future economic benefits.
- b. Remove the assessment of likelihood from the existing definition of an asset.
- c. Focus the definition on the present, rather than on past transactions or other events.
- d. Ask the staff to clarify the linkage between the entity and the economic resource, preferably without using the word control.

Objective of Meeting:

The objective of the meeting was to lay the groundwork for reaching an agreement, in principle, of a working definition of an asset to use in moving forward with Phase B of the Conceptual Framework project at the joint FASB-IASB meeting on October 23, 2007. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

1. Ian Hague stated that, at today’s meeting, the Board would be discussing what aspects of the asset definition the Board wishes to change. The purpose of the discussion was to gain a clear understanding of the Board’s objectives for the changes made to the asset definition before trying to determine the proper words to capture those objectives. Mr. Hague noted that the objective of next week’s joint Board meeting would be to settle any “wordsmithing” issues or other differences in views between the two Boards.

ISSUE 1: ECONOMIC RESOURCE VERSUS PROBABLE ECONOMIC RESOURCE

2. Mr. Hague stated that the main issue to be resolved in order to converge the existing IASB and FASB asset definitions is to decide whether the definition

should focus on defining an asset as an economic resource or as probable future economic benefits. He stated that the staff recommends that, at a minimum, the focus of the asset definition should be on a present economic resource rather than on future economic benefits. Further, because the objective of this convergence project is to converge and improve the conceptual frameworks, the staff recommends considering further improvements to the definition and not stopping at convergence.

Issue 1 Board Tentative Decision

3. All Board members agreed that the definition of an asset should focus on a present economic resource and that the further improvement options should be considered.

ISSUE 2: LIKELIHOOD

4. Mr. Hague stated that the second issue to be considered was the role of likelihood, which currently exists in both the IASB and FASB definitions. He stated that the staff recommends removing any assessment of likelihood from the asset definition.

Issue 2 Board Tentative Decision

5. All Board members agreed that the definition of an asset should not include any assessment of likelihood.

ISSUE 3: CAPABLE OF PRODUCING CASH INFLOWS OR REDUCING CASH OUTFLOWS

6. One possible suggestion for the definition of an asset was to state that an economic resource must be *capable of producing cash inflows or reducing cash outflows*. However, the staff believes that phrase is an incomplete description of what constitutes an economic resource. Thus, the staff suggested including the phrase *capable of producing cash inflows or reducing cash outflows* in the separate definition of an economic resource.

Issue 3 Board Comments

7. Mr. Young stated that he believed the cash flow effects should be included in the asset definition.

8. Mr. Smith stated that he was indifferent as to whether the notion of cash flows was included in the asset definition or the amplifying text. However, he stated that, because it was an important concept, it definitely needed to be included in one or the other.
9. Ms. Seidman stated that she did not want the reference to cash in the definition of an asset. Mr. Linsmeier stated that he believed the reference to cash flows belongs in the definition of an economic resource because other information in that definition augments the phrase.

Issue 3 Board Tentative Decision

10. The majority of the Board supported including the phrase *capable of producing cash inflows or reducing cash outflows* in the accompanying definition of an economic resource. Mr. Young supported leaving the phrase in the asset definition.

ISSUE 4: PAST TRANSACTION OR EVENT

11. Mr. Hague stated that both the existing IASB and FASB asset definitions refer to the need for an asset to have arisen as a result of a past transaction or event. He stated that the staff recommends focusing on what an entity presently has rather than looking for a past transaction or event that creates what an entity presently has.

Issue 4 Board Comments

12. Ms. Seidman stated that she did not believe the focus on the past transaction or event would be necessary because of other changes the Board was planning on making (particularly the changes related to linkage of the entity to the asset).

Issue 4 Board Tentative Decision

13. The Board agreed that the asset definition should not focus on the past transaction or event.

ISSUE 5: CONTROL

7. Mr. Hague stated that control is used in both the FASB and IASB existing asset definitions. However, he noted that the word *control* has been

Issue 5 Board Comments

8. Mr. Linsmeier stated that the Board had discussed *control* and the theories behind the various alternative definitions extensively at last week's education session. He noted that the Board spent most of their time discussing the following two options:

- a. An asset of an entity is a present economic resource from which the entity can obtain cash inflows (or reduced cash outflow), if any, to the exclusion of others.
- b. An asset of an entity is a present economic resource to which the entity has a present right or other privileged access, to the exclusion of others.

9. Mr. Linsmeier noted that, at the education session, there was much discomfort regarding the phrase *to the exclusion of others* and what the word *access* really meant. He noted that there was much discussion regarding whether control is an overarching notion that attaches an economic resource to an entity or whether control was related only to access that is not an enforceable right. He stated that the discussion led to another alternative definition:

An asset of an entity is an existing or present economic resource for which an entity presently has an enforceable right or other control over access.

10. Mr. Linsmeier then explained the reasoning behind the changes in the new alternative definition. He stated that the issue was how to distinguish the *right* from the *access*. He clarified that in regards to "the right," the augmenting language is very important, as it must be an *enforceable right*. Mr. Linsmeier stated that adding the modifier *enforceable* distinguishes the right from the other forms of linkage. Mr. Linsmeier stated that the notion of control would be more limited as it would come into play only when distinguishing *access*

(not when distinguishing a *right*). An enforceable right is not dominated by the notion of control; however, an entity can have control over access.

11. Mr. Linsmeier stated that the phrase “to the exclusion of others” was problematic because it seemed to imply that all others must be excluded. He stated that the phrase *control over access* allows partial control over the access of an item. Mr. Linsmeier stated that referring to control only as a way to think about access that is not related to rights, rather than as the overarching concept used when consolidating entities, is not as confusing.
12. Mr. Linsmeier stated that the phrase *to the exclusion of others* was problematic also because it focused more on what third party entities do not have rather than on what the reporting entity actually has. He explained that, phrases like *to the exclusion of others* or *access that is not presently available to others* concentrate, not on what the entity benefits from related to the present economic resource, but on what others do or do not benefit from. He noted that the idea, “It’s ours if others don’t have it” doesn’t seem right.
13. Mr. Herz suggested leaving the exclusivity notion out of the asset definition, as it is captured by the scarcity notion in the definition of an economic resource. Mr. Hague responded that, because there are economic resources that all entities have, it is necessary to embed a notion of exclusivity in an entity’s linkage to the economic resource in addition to the notion of scarcity embedded in the economic resource.
14. After learning that the IASB had decided to avoid using the word *control*, Mr. Linsmeier suggested that instead of using the phrase *control over access* (because the IASB decided against it) or *to the exclusion of others* (because of reasons stated earlier), the Boards should use the phrase *or other ability to limit access*. Mr. Johnson noted that the phrase *or other ability to limit access* seemed to focus only on the entity being able to preclude others’ access. However, the preclusion of others doesn’t have to be something that the entity does; it could simply result from the nature of the asset. Mr. Linsmeier and Mr. Herz suggested possibly using the phrases *to which an entity presently has other limited access* or *access that is not generally available to others*.

15. Ms. Seidman and Mr. Herz agreed, in principle with Mr. Linsmeier's suggestions. Ms. Seidman added that including the notion that an asset includes an *enforceable right* is a significant clarification to the definition. She stated that this added notion is what eliminates the need to focus on a past transaction or event.
16. Mr. Crooch stated that constituents would not be able to perceive the reasoning behind Mr. Linsmeier's proposed changes. He stated that, based on the inability of the English language to be as precise as it needs to be, it was important to develop a short and concise definition of an asset. He recognized that it would be impossible to cover the entire definition in one sentence and that explanatory language was inevitable. That being the case, he stated that there was no point in cluttering the definition with additional language that would need explanatory language anyway. Mr. Crooch noted that many of the changes that Mr. Linsmeier was suggesting were attempts to define *control* within the asset definition. He supported the following definition: An asset is an existing economic resource controlled by the entity.
17. Mr. Young suggested using a cash flow related asset definition. He stated that future cash flows are always an asset, so a focus on cash flows would eliminate control, access, and exclusivity issues. Mr. Bossio and Ms. Seidman stated that, with a cash flow related definition, there would still be questions regarding likelihood and how to substantiate whether one has future cash inflows. Mr. Young stated that those issues would be relevant to recognition and measurement, but would not have an effect on the definition.

Issue 5 Staff Comments

18. Ms. Bielstein stated that those who did not like the notion of exclusivity might be confusing the underlying economic resource with the asset. She noted that it was important to distinguish between the underlying economic resource (which many entities may have access to) and the promise to receive specific benefits from the economic resource (which is exclusive).
19. Mr. Bossio stated that the IASB had arrived at the same conclusion, in principle, as Mr. Linsmeier. He stated that there were two ways for an entity to have an economic resource. The first way is to have a present right. This

way does not create any issues. The second way that an entity can have an economic resource is through some sort of access. The question as to whether control is the right word for that access is where the problem arises. Some say that control is too strong a word. The access may not be some notion of control; it may be some form of access that is limited in some way, but there is still an asset. It is the limitation on the access that causes the problem. Mr. Johnson added that the issue stems from the fact that a right goes both ways. That is, if you have a right, you have access to the economic resource and you can preclude others from accessing it. The challenge is attaining the same bi-directional notion in the limitation. The word control seems to focus only on keeping others away, without any concern for determining who gets in.

Issue 5 Tentative Board Decision

20. In principle, the majority of the Board agreed that the link to the present economic resource is by virtue of an enforceable right or other access. The issue is coming up with the words to properly describe that the *other access* is the entity's access to the resource and that others do not have the same access.

21. Mr. Batavick noted that if it is not possible to clearly articulate the Board's intentions in the asset definition, it may be necessary to use a more concise definition with more robust amplifying text. Mr. Linsmeier added that, depending on the recognition criteria, it may be more useful to simply define the present economic resource and allow the recognition criteria to determine when a particular entity has an asset (similar to DY's viewpoint).

Follow-up Items:

Mr. Hague stated that the staff would continue to work on finding the right words to express the Boards' intentions and that, hopefully, the Boards could agree on the proper wording at next week's joint meeting.

General Announcements:

None