

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

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

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

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

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

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

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

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

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

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