Title: Exploring some standard-setters' views in respect of asset recognition

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Abstract:

In-depth semi-structured interviews were conducted with four Standards-setters: three International Accounting Standards Board members and a Canadian Accounting Standards Board staff member –who has been working on the IASB's Conceptual Framework project – in particular, the elements and recognition phase. These interviews were conducted from May to June 2008 and were directed towards seven related themes taken from the litarture: the definition of an asset, the recognition of an asset, asset recognition is a-priori to asset measurement, the resource in respect of intangible assets comprises 'rights', entity specific versus market specific events, separability, internally generated intangible assets. As one can observe from their personal views, they were not inclined towards the use of asset recognition criteria preferring instead to rely upon compliance with the definition of an asset and then an asset's subsequent measurement.

Keywords: conceptual framework; assets; intangible assets; asset recognition

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Exploring some standard-setters' views in respect of asset recognition

By Nevine El-Tawy and Tony Tollington

Introduction:

In-depth semi-structured interviews were conducted with three International Accounting Standards Board (IASB) members and a Canadian Accounting Standards Board staff member from May to June 2008. These standards-setters are currently involved in the lengthy process of revising the conceptual framework (CF) (IASB, 2001) which, at the time of writing, was directed towards the 'Elements and Recognition' part of it. This fortuitously coincided with our research, which examines the case for and against the use of asset recognition criteria with particular reference to their application to intangible assets.

Research method adopted and Data collection:

According to Wolcott (2001), there are three broad data-gathering techniques: Experiencing (participant observation), Examining (archival researches), and Enquiring (interviewing). To utilise the "Experiencing" data-gathering technique, the authors probably have had to be observers at the IASB meetings and discussions. However, this type of data-gathering technique is not generally open to the public.

For the second data-gathering technique; "Examining" the authors reviewed the conceptual framework for asset recognition process on the IASB web site together with the related academic literature.

Finally to utilize the "Enquiring" interviewing is used. Interviewing is described by Kahn and Cannel (1957) as *"a conversation with a purpose" (p.149).* Marshall and Rossman (2006) highlight on the basic assumption of qualitative interviews as follows "*the participant's perspective on the phenomenon of interest should unfold as the participant views it, not as the researcher views it" (p.101).*

There are different types of interviews techniques to collect data. Depending on the way one asks the interview questions. Taylor and Bogdan (1998, p. 88) define in-depth interviews as *"face-to-face encounters between the researcher and informants directed toward understanding the informants' perspectives on their lives, experiences, or situations as expressed in their own words*". These interviews, however, were semi-structured in the sense that:

> *… most of the informant's responses can't be predicted in advance … and you as interviewer therefore have to improvise probably half and maybe 80% or more of your responses to what they say in response to your initial prepared question or questions (Wengraf 2001, p. 5).*

In-depth interviews are dynamic. The style of questioning and discussion offer greater flexibility than a survey-style interview and provide "*a more valid explication of the informant's perception of reality"*" (Minichiello et al. 1995, p. 65). An in-depth interview has the appearance of a regular conversation, but it is a controlled conversation oriented towards the interviewer's research interests.

The interviews were time constrained from one to two hours in each interview. All the interviews were audio-taped and then transcribed. Notes were taken during the interviews. In addition, general reflection notes (regarding interview contexts, apparent relationships between different interviews and contexts, particular researcher impressions of the way how each interviewee can express the CF for financial reporting and their reactions to the interview questions etc.) were also prepared immediately after the interviews.

The structure of the paper

The interviews were directed towards seven themes: the definition of an asset, the recognition of an asset, asset recognition is a-priori to asset measurement, the resource in respect of intangible assets comprises 'rights', entity specific versus market specific events, separability, internally generated intangible assets. The interviewee responses are presented selectively in a series of tables in section headings that follow the above themes sequentially. Where square brackets appear in these tables it is either as a point of clarification or it is a supplemental question. The final section of the paper presents a summary of, and comments on, the main features of the interviewees' responses.

Theme 1: The definition of an asset

We asked the four interviewees:

The definition of an asset appears to occupy a central role in the accounting recognition and measurement of assets. Would you agree? And, if you do agree, please give your views on that role for asset recognition and measurement purposes.

Their responses were as follows (Table 1):

Insert Table 1 here

Definitions clearly occupy a central conceptual role in the accounting domain. We would advance the argument, though, that this is because:

"If men <u>define</u> things as real, they are real in their consequences. We create a picture of an organization, or the 'economy', whatever you like, and on the basis of that picture (not some underlying real reality of which no-one is aware), people think and act. And by responding to that picture of reality, they make it so: it becomes real in its consequences. And, what is more, when people respond to that picture, and the consequences occur, they see it as proof of our having correctly conveyed reality. Clever isn't it. That is how society works" (Hines, 1988, p257, underlining added).

And if, as Hines implies, there is no "underlying real reality" then "a faithful representation of the real-world economic phenomena" (IASB 2005, 2008) is somewhat problematic. This is because representations of that defined "picture of reality" are always contestable (see Popper, 1962), as is any correspondence to the abstract notion of accounting truth conveyed thereby (see Shapiro, 1997). Gerboth (1987, p2), for example, argues that:

"…the existence of definitions matters hardly at all in deciding most issues of real-world consequence. Their contribution is to add brevity to discourse. The attempt to make them convey essential knowledge is a two-thousand-year-old source of obscurantism. Other respected disciplines are not even concerned about the precision of their definitions."

Regardless of such comments the Board has directed part of its energies to revising the definition of an asset from…

"A resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise" (IASB, 2001, CF 49, 53-59),

to…the working definition in 2006;

"An *asset* is a present economic resource to which an entity has a present right or other privileged access" (IASB, 2006, p.4),

to…the working definition in 2007

An *asset* of an entity is a present economic resource to which the entity presently has an enforceable right or other access that others do not have. (IASB, 2007, p.2)

Such changes encourage academic debate and it is often content focused (see Table 2) on semantic nuances whilst leaving the overall definition-led approach intact (see Schuetze, 1993; Egginton, 1990; Booth, 2003; Walker, 2003; Walker & Jones, 2003; Erhard, 2004; Johnson, 2004; Bullen and Cook, 2005; Gore & Zimmerman, 2007; Miller & Bahnson, 2007).

Insert Table 2 here

Theme 2: The recognition of an asset

The CF (IASB, 2001, para. 82) defines recognition as the process of depicting an item in words and by monetary amount and the inclusion of that amount in the balance sheet or income statement totals. That process is initiated by compliance with recognition criteria, the first criterion being compliance with the definition of an asset (IASB, 2001, par., 83). One may view this situation in two ways: the constituent attributes of the definition are part of a recognition criteria-led approach (a single hurdle approach) or, alternatively, compliance with the definition of an asset is a-priori to additional asset recognition requirements (the current two hurdle approach). So we asked the four interviewees:

> Common features of existing asset recognition criteria refer to the linkage to the definition of an asset, in particular, the ability to generate future economic benefits and that those benefits should be measured reliably. Do you have any views about the adequacy of such criteria for the purpose of recognising and measuring assets in the financial statements?

The responses were as follows (Table 3):

Insert Table 3 here

Since compliance with the definition of an asset is the first part of the current recognition criteria (IASB, 2001, para. 85-88) it is reasonable to argue that so too are its constituent attributes. De facto, an asset is not recognized without them. If, alternatively, one ignores asset recognition criteria and adopts a definition-led stance only, then it seems to us that an obligation remains to explain how the definition is to be applied in order to recognize an asset in the financial statements. One can refer to that process in terms such as ‘recognition criteria’ or simply, ‘an explanation’. The point here is that it probably does not matter whether one has a two-stage ‘definition-and-recognition’ process (IASB, 2001), a one-stage ‘definition-with-explanation’ process (under consideration?) or a one-stage ‘recognition-criteria-only’ process. The point here is that whatever conceptual process is adopted, we would argue, it should have a practical outcome so that one can *in practice* accurately delineate an asset element, particularly the intangible ones, from any other element. So, for example, if rights are an essential feature of the definition and/or recognition process then what are the rights? List them, identify their properties (contractual, statutory registration, court order, prescriptive rights, custom and practice, free goods etc), identify dimensions where they exist (How long is a long-lived right? Are transactions merely a subset of general right of transference? etc), possibly rank where hierarchical relationships exist between them (Is a right to control a-priori to a right to future use? etc), determine what rights are essential (a right to capital and how is that to be maintained? etc) and what rights are desirable (the right to use as security? etc) for asset recognition to occur and so on. In other words, give the practitioner something they can actually use even if it is just a well-explained checklist. What seems likely to exist for asset recognition purposes will be the following (Table 4):

Insert Table 4 here

Theme 3: Asset recognition is a-priori to asset measurement

Recognising a potentially unrecognisable intangible asset is clearly problematic. Nevertheless, without some form of asset recognition the possibility exists that there may be little or nothing to subsequently value. Whittington (2008) argues that the current United States CF confuses *measurement* with *recognition* and, in a similar vain, it is interesting to observe the comments of one interviewee in Table 5 who is able to advance ‘asset measurement’ as the basis for ‘asset recognition’. However, we would <u>not</u> agree with a common assertion that if you can measure it, you can recognise it. So, we asked the four interviewees:

Do you have any views on the assertion that intangible asset recognition should be before asset measurement despite the obvious problem of recognising something that is intangible in nature?

Their responses were as follows (Table 5):

Insert Table 5 here

Theme 4: The resource in respect of intangible assets comprises 'rights'?

The definitions of an asset are partly constitutive (describes their nature) and partly operational (describes what they do). For example, they are constitutive because they comprise resources and rights and they are operational because they generate economic benefits (though this can only be implied from the latest definition). In asking the previous question we were addressing an intangible asset's constitutive nature, which, to repeat, is inherently problematic unless one is clear about how the related constitutive rights structure (if any) operates to gain, or deny others, access to economic resources (inputs) and/or economic benefits (outputs). We were particularly concerned about using the term 'economic resources' in respect of intangible assets because it seemed to us that the 'resources' actually relates to 'rights'. Our concern is based on Weetman's (1989) view that the need to define a resource in a definition simply replaces the need to define an asset (see Samuelson, 1996 too). It follows, if Weetman is correct, we potentially have the added issue of the need to define rights replacing the need to define a resource replacing the need to define an asset where the asset is intangible in nature.

Pallot (1990, 81, brackets added) argues that

"…assets have both a resource dimension (where a resource is that which produces benefits) and a property dimension (where property is taken to be a set of legally sanctioned rights over things and between persons with respect to things). This analysis demonstrates (and draws upon) the fact that accounting has its foundation in both economics and law."

This is fine when dealing with a tangible resource (and property) but somewhat problematic when dealing with the notion of an intangible resource and whether this is actually a contradiction in terms? Pallot's economic resource and legal property dimensions are often mixed together. For example, Samuelson (1996, p150, brackets added) argues that:

"…a clearer distinction between assets and expenses would be possible if assets were defined as property-rights (a legal focus). All resources (an economic focus) used by an enterprise have bundles of rights attached to them (a legal focus). These rights include the rights to use (a legal focus) a resource (an economic focus), to change its form or substance (an economic and/or legal focus), and to sell or rent it to others (a legal focus)…Assets are abstract rights (legal focus) that can be exchanged (a legal focus). Asset values are monetary representations (an economic focus) of property rights (a legal focus)."

We would argue, however, that an intangible resource is a contradiction in terms unless society decrees otherwise through the creation of enforceable rights, for example, fishing quotas. Thus, we would argue the above "clearer distinction" is not particularly useful one to make when distinguishing between an intangible asset and an expense. It works for tangible assets but not for the intangible ones. The capacity to exercise socially constructed rights can have economic consequences (economic benefits or outputs) but there are no economic resources (inputs) and, therefore, no "rights attached to them" unless legal rights are regarded as the resource – a conflation perhaps? And, if one accepts this point, de facto, one is also accepting, in respect of intangible assets, that a legal focus is a-priori to an economic one.

There could also be a tautological issue in respect of the previous definitions of an asset, for example, an asset is a present right (if rights are resources) to which the entity has a present right or other privileged access. So, we asked the four interviewees:

> Do you have any views on the assertion that, in general, a business cannot use an asset unless it has a 'right', legal or otherwise to do so? And…Whilst there are clearly 'rights' attached to the recognition of an asset, for example, ownership rights, can you think of any 'rights' attached to the measurement of assets?

Their responses were as follows (Table 6):

Insert Table 6 here

Theme 5: Market-Specific vs. Entity-Specific events

With internally created intangible assets asset recognition it depends on where one positions oneself vis-à-vis the above two events. Let us explore this assertion. If one positions oneself in the entity-specific 'camp' then, on a transactions basis, internally created intangible 'assets' have previously been expensed against income rather than being currently capitalised. And there is a wide degree of accounting discretion as to the asset or expense location of the related transactions-based debit. In theory (but almost certainly not in practice) it would be possible to trawl back through previous income statements and extract the expensed transactions that one now wishes to capitalise instead. Alternatively, if one positions oneself in the market-specific 'camp', then the transactions relate to those assets, not expenses, that the market chooses to recognise and place a value upon. As we can see from the value relevance literature, there is a wide degree of discretion as to what may be regarded as an asset. For example, Linsmeier et al (1998, p313), Hirschey and Wygandt (1985, p327), Guilding and Pike (1990, p48), Aboody and Lev (1998, pp162-163), Barth et al (1998, pp62-63) Amir and Lev (1996, p5) highlight the situation where expenses could be regarded as intangible assets, that is, respectively in respect of R&D, advertising, marketing expenditure, software, brands and in general. All that said, there are many intangible assets, particularly those from the intellectual capital domain, that may have no transactions basis at all on which to ground asset recognition, and the related event may simply be eureka moment disconnected from any business entity. For example, the private patent creator and subsequent major shareholder of a company producing his patented cyclonic vacuum cleaners effectively transfers control and usage of an intangible asset that is not transactions-based and, yet, it is the mainstay of the company for the life of the patent. If one had to make a choice between the two camps in this regard then, at the point where the *control* and *future use* of the intangible asset was *transferred* to the business, it became an entity-specific event with an uncertain value. It is partly for this reason that we are interested in asset recognition criteria of which, for instance, the *right to control*, the *right to future use* and the *capability of transference* may be just three of many other criteria (see El-Tawy and Tollington, 2008). As regards the uncertain value assertion, there is no entity –specific transactions-based measurement or market-specific valuations-based measurement (see Maines et.al (2003) on the absence of organised liquid markets for intangible assets).

From the authors' viewpoint we have a particular interest in those intangible assets that do not fit easily into either of the above two camps. So, we wanted to know how the four interviewees positioned themselves in respect of these two camps. We asked:

Please look at card 1[attached as appendix A], which defines what is meant by 'market-specific' and 'entity-specific' events. In comparison with market specific events, what is your view on the assertion that the accounting recognition of an asset is an entity-specific event?

The responses (Table 7) were:

Insert table 7 here

Theme 6: Separability

The separable recognition of an asset occurs before asset measurement otherwise one cannot be too sure of what one is measuring and transferring should that be necessary. Archer (ASB, 1995) rightly points out in this latter regard:

"…the concept of separability involved is the 'ontological' criterion of separate transferability, not the criterion of separate identifiability of the estimated attributable future cash flows. The latter strictly concerns the different issue of 'measurability'"

A related problematic issue, though, is establishing the separable recognition and transference of something that is intangible in nature. It initially appears that the only basis for intangible asset recognition to occur is actually on the basis of a measurement, typically a market-based valuation – a market-specific approach that is the reverse of the above a-priori logic. Thus, Napier and Power (1992, p. 90) comment in respect of such valuations that:

"…such methods are claimed to be acceptable because separate identification is possible, but we argue that such methods determine, rather than depend upon, separability. Because of this apparent circularity, the acceptability of such methods cannot be determined simply by appeals to the idea of separability, because this idea is not independent of measurement."

However, this "measurement separability" or 'measurement only' view is perhaps unbalanced: asset measurement should not "determine" the separable recognition of assets because, to repeat, the latter is logically prior to the former. Consequently, there is no "apparent circularity" because as Archer implies, above, separability has a 'transferability' as well as a 'measurability' aspect to it. We would also argue that a physical, separable recognition can occur anyway on the basis of a surrogate artefact, typically, a documentary representation of the intangible asset, such as patent letters or trademark registration documents. And we would go one step further in arguing that Archer's 'transferability' is but one of many functions of a separable asset that should form part of the recognition process for intangible and tangible assets alike (see the Companies Act 1985 Sch.4A, 9(2) which, for example, refers to disposal and discharging). So we asked the four interviewees:

> Please look at Card 2 [see appendix B], which lists some of the functions of an asset. In what way, if at all, do you think that functionality should be part of the asset recognition process?

The responses of the four Board members were as follows (Table 8):

Insert Table 8 here

Egginton (1990) argues that whilst the ability to physically split off a particular resource from the business as a whole (whether or not we then require the remaining business to be viable) may be one criterion of separability, it is not necessarily the only one. We would obviously agree given our previous comments. Egginton also points out that the ability to identify a resource as a bundle of legal rights does not exhaust the notion of separability. We would agree too but such comments are directly linked to the unit-of-account conundrum (is it bricks and mortar or a building or a building as part of an investment type of debate). It was becoming clear to us that the notion of separability is multi-faceted. So, we thought we would first try to create a general definition of separability and see what the four interviewees thought about it. We asked:

Please look at card 3 [Appendix C], which defines what is meant by a "separable" asset, commonly referred to as separability. Please give your views on the role of separability in the accounting asset recognition process?

The responses were as follows (Table 9):

Insert Table 9 here

The question was clearly recognition-based (see, for example, Tweedie and Whittington, 1990, p91) not definition-based despite some notable academics who think that separability should be part of the definition. See, for example, Baxter (cited in ASB, 1995x, p62) and Chambers (1966, p103) who states that an asset is defined as any severable means in the possession of an entity. Separability is also included in a German definition of an asset. More importantly it is balanced insofar as it has both of Archer's transferability and measurability aspects of separability in it. Schmalenbach-Gesellschaft für Betriebswirtschaft e.V. (SG) (2005, p70-71) define an asset (Vermögensgegenstand) as follows:

"It must represent (1) an economic value, (2) that value can be separated from the entity (i.e., transferred or sold independently of other assets) and (3) it can be valued individually. Intangibles that were acquired (separately or as part of a business combination) and self-generated (internally generated) intangibles considered to be sold (current items) must be recognized as an asset if they comply with the above definition"

Upton (2001, pp.70-71), on the other hand, in offering a "list of potential intangible assets", states that "separability and contractual/legal rights are not essential characteristics of an asset, but they are evidence of one characteristic that is essential — control". That said, neither separability or control appear in the latest definition of an asset as presented in Theme 1, previously.

Given our comments about the multi-faceted nature of separability we were concerned by the comment that:

"Measurement separability goes further by effectively collapsing all three stages of identification, recognition and measurement into one. In other words, if we can measure the resource in an acceptable manner, then it is difficult to resist the identification of the resource as an asset and its consequent recognition in financial statements" (Napier and Power, 1992, p.88).

Given too our previous comments about the nature of 'resources' and our concerns about measurement separability, we wanted to know what the four interviewees' attitude towards ***'measurement separability'*** would be:

Napier and Power (1992) introduce the term "Measurement Separability", which collapses the three stages- identification, recognition and measurement- into one stage on the basis that if one can measure an asset, de facto, one has simultaneously identified and recognised it. In what way would you agree or disagree with this term?

The responses were as follows (Table 10):

Insert Table 10 here

Theme 7: Internally generated intangible assets:

As explained in theme 5, previously, there are already various ways in which internally generated intangible assets could be disclosed in the financial statements. With a transactions-based cost, entity-specific approach, intangible asset recognition and asset measurement is simply a matter of accounting discretion as to the location of debits as either assets or expenses. With a valuations-based approach, however, there does not necessarily have to be a connection with a transaction at the initial recognition stage though this is typically so if only from an audit verification viewpoint. We wanted to know where the policy bias lay with regard to these two approaches and so we asked the four interviewees:

> Do you have any views about whether and how non-transactions-based or internally generated intangible assets could be disclosed in the financial statements?

The responses were as follows (Table 11):

Insert Table 11 here

Summary and related comments

The balance sheet centred asset/liability view of accounting has conceptual primacy as far as the four interviewees are concerned (see Table 1). This balance sheet-centred viewpoint is grounded on the Hicksian (1946, pp178-9) notion of changes in wealth plus what is consumed in a period. It follows, to some extent, that the disclosure of income after deducting expenses comprehends; first, no distinction between income from operating or holding assets (compare Edwards and Bell, 1961, p93 and Revsine, 1973, pp88-89) whether realised or not (see Bertoni and De Rosa, 2005; Cauwenberge and De Beelde, 2007; IASB, 2003; Newberry, 2003; Barker, 2004 on the notion of 'comprehensive income'), second, the weakening of concepts such as matching (see Lev and Zarowin 1999; IASB, 2001, para.95) and realisation too where the disclosure of valuations independently of a transaction effectively pre-empts the point of realisation as a recognition signal.

The four intrviewees rejected the need for recognition criteria preferring instead to rely upon compliance with the definition of an asset and then measurement (Table 3). The recognition criterion in respect of reliability of measurement seems likely to be subjugated to the overall requirement to provide a faithful representation of financial reality. Reliability in this context was/is typically transactions-based. By giving priority to ‘faithful representation’ the door is now open to increases in the disclosure of subjective valuations sometimes disconnected from transactions if that leads to a more faithful representation of financial reality.

The responses of the four interviewees in Table 5 shows that the majority do not think it is necessary to recognise an intangible asset on some basis prior to asset measurement. For example, to quote from one interviewee’s response again “If you can measure it, you can recognise it…” Yet, at the same time, they do not appear to like the Napier and Power (1992) idea of collapsing identification, recognition and measurement into one stage (Table 10). The missing reconciling item here is compliance with the definition of an asset in (as?) the recognition process and that role is clearly viewed as being a-priori to asset measurement.

It would appear from the responses in Table 6 that the four interviewees agree with our assertion that assets are enforceable rights. The problem here concerns intangible assets and the related absence of physical resources. Specifically, if ‘rights’ *are* ‘resources’ (albeit intangible ones!), and resources are what comprise ‘assets’, then the current definition of asset can appear to be tautological in nature when applied to intangible assets. It should be noted through in a subsequent email response from one interviewee that the conflation of rights and resources in respect of intangible assets was rejected. With a transactions-based historical cost approach, asset recognition and measurement are both entity-specific, that is, one perspective. The responses in Table 7 suggest that there is now an entity-specific perspective for asset recognition purposes (albeit that this is now articulated in terms of compliance with the definition of an asset) and there is a market-specific perspective for asset measurement purposes, that is, two perspectives. The implication is that there may be situations where it is possible to recognise an asset from one of these perspectives for which there is no measurement based on the alternative perspective – for example, the cyclonic vacuum cleaner patents, previously.

The four interviewees were fairly ambivalent towards the functions of an asset as identified by Honoré (1961) – see Table 8. So, for example, the right to control an asset is omitted from the latest definition of an asset yet, some of the interviewees identified it in their response. The approach seems to be that if the definition of an asset establishes a general right, why does one need to be specific about individual rights? This assertion is speculative and is based in part on the observation that the two essential features of 'resources' and 'rights' may be interpreted widely in the absence of specific guidance to the contrary – one of our concerns as expressed in the paper.

Finally, it is clear from the responses in Table 9 that 'separability' is not regarded as an essential feature of an asset. It is, perhaps, a common view of those who advance the case for greater use of valuation-based methods in accounting that it does not matter if the assets are identified singularly or as a group so long as the overall measurement is a reasonably accurate representation of current market worth. We would also speculate that such proponents could easily embrace a simple definition-led approach to asset recognition because that allows a wide degree of discretion on where that valuation is to be applied.

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Table 1: The definition of an asset	
Interviewee 1	"'Assets' are the place to start…is the 'central role',...It plays a central role and to me, the only way to figure out what income and expense is, is by looking at differences at assets and liabilities. So it is not I don't think revenues and expenses are important or they aren't got primacy, it is just the way to calculate income and expense in a way that make sense to me. I do not know how to do it and how to calculate income and expense independent of assets and liabilities".
Interviewee 2	"I am going to develop a model of measuring the wealth of my organisation…then …logic states that I should begin with the things I got and that is the assets."
Interviewee 3	"There is no doubt that the asset view has the conceptual primacy…because a liability is defined as an obligation to sacrifice assets…'Asset' is an absolute core for the conceptual framework."
Interviewee 4	"It's the only real thing. There isn't anything sacred about that. I mean assets are real, liabilities are real and everything else is dreams of accountants." [So you agree that the asset/liability view has conceptual primacy…?] "Yes, nothing else works."

Table 2: What exists vs. what is proposed in the definition	
What the Board retained from the old definition in the new definition?	Resource
What the Board omitted from the old definition in constructing the new definition?	Expected Past events (past time frame) Future economic benefits (future time frame) Control
What the Board added to the new definition?	Present (time frame) Enforceable right or other access

Table 3: The recognition of an asset	
Interviewee 1	"…we do not need recognition criteria. Anything that meets the definition of an asset and *can be measured reliably* and has the qualitative characteristics that we come up with in the new framework, which is basically the same, which is called faithful representation. If it meets the definition of an asset and has all those characteristics we can measure it. Personally I do not see why we should have another set of criteria."
Interviewee 2	"There is a view that is held by us that there should not be recognition criteria, that is, simply if it meets the definition of an asset, then put it on the balance sheet… But *personally I think you need measurement criteria* …that's why we have examples where we got something that meets the definition of an asset and we do not know how to attribute a number to it"
Interviewee 3	"I think if you have a very robust definition of an asset and you are careful to identify the essential components of an asset…if you can satisfy yourself that it is an asset because it is an economic resource and you have the present right to that resource…it is not something in the future, it's now…then it exists. So, now, if it already exists, why do I need to subject it to any other consideration *than measuring it*?"
Interviewee 4	"The recognition criteria now don't really do anything, except give people a cop out when they don't want to recognise anything. They'll say that's not reliably measurable'. The hell it isn't. They just don't want to measure it and that's where there'll be a problem. I expect most of us are gonna say 'No, we've got an operable definition. If you meet the definition, you record the assets, recognise the asset. Now, we can argue how to measure it, what attribute to apply, but I doubt that we would agree on recognition criteria, apart from the definition, which is in both frameworks now."

Table 4: Recognition criteria vs. Qualitative characteristics	
What the Board retained from the old asset recognition criteria.	Compliance with the definition of an asset
What the Board may omit* from the old asset recognition 'criteria' in the new asset recognition (or rather, definition–led) 'process'.	Probable…future economic benefit Measured with reliability.
What the Board added to the CF in respect of the new asset recognition 'process'.	"measured reliably" changed to " faithful representation"
What, subjectively, may be said to be missing in respect of the new asset recognition 'process'	Measurability (recognition of the parameters for measurement, not the measurement methods themselves) Separability

* Since the process is not yet complete, this situation can change again.

Table 5: Asset recognition before asset measurement	
Interviewee 1	"I am in favour of recognising intangible assets… future cash flow in the definition, that's what a resource is. A measure of reliability is faithful representation, so why you don't need another step?" [ie. asset recognition].
Interviewee 2	"I guess I always think about that recognition can come first before measurement whether it is intangible assets or not…I guess I agree with that assertion. I agree with that assertion with intangible assets but I agree with other things as well."
Interviewee 3	"It doesn't worry me that there is a physical asset there, there's a financial asset, there's an intangible asset. They are all assets. They should all have the same asset criteria in terms of the essential characteristics and they should all be measured the same way in my perfect world."
Interviewee 4	"What does <u>before</u> mean? Do you mean that I have to consider recognition before measurement? I have to consider if I have an asset before measuring it?…[We have the definition and measurement phases only. I think that the recognition would be an intersecting part between both of them…] "You could have something that meets the definition of an asset that is absolutely immeasurable. That is possible I suppose. I don't know what it is but it is probably possible." [So do you think an economic resource can meet the definition and it could not be measured?] I do not know what it is but I have to accept that this is possible" [This means that its recognition will not be possible in the financial statements] "If you can measure it, you can recognise it because you gotta assign a number to it to put it in the financial statements unless you assign a zero to it."

Table 6: Resources are rights?	
Interviewee 1	"That's correct. Any type of right, any type of right you have, that the entity has, that is the economic resource, so it has to be a 'right' that will generate economic benefits." "…rights…if they are not enforceable, you really don't anything… Enforceablility is really a way, a signal that says that you have access to and other people do not."
Interviewee 2	"I agree with that entirely. That's right on what we are developing in the new definition of an asset: the fact the entity has got to have a link to it. We are focusing in on it being a right. And both the fact that it can be legal or otherwise is important because we had a lot of discussion about whether it should be restricted to legal rights. And we are not restricting it to that" (amended by the interviewee in an earlier transcript draft)
Interviewee 3	[…assets are rights. Do you agree?] "I do agree…I wonder whether this question is really one we need to get so excited about. To me an asset is an economic resource. That's what it is. It is attached to your entity, because we are only accounting for your entity, by a 'right' or other access."
Interviewee 4	[Question not asked but the following comment may be pertinent] "…future economic benefits is there [implicitly in the definition] because it would not be a resource if it did not have economic benefits. To be yours, you've got to have 'rights' to it as opposed to 'control' it.

Table 7: Entity specific vs. Market-specific	
Interviewee 1	[Entity specific event]: "…these are the rights that the entity has otherwise it is not the entity's asset…Now to recognise it in the financial statements what number do I use?…You are looking to the market to figure how to measure it? So what is the right to income worth?" [Market specific event].
Interviewee 2	"Accounting recognition of an asset is clearly an entity-specific event because only the entity can have an asset…" [Should the asset recognition criteria be based on an entity-specific or market-specific event?] So, if you are thinking about recognition criteria like, let's say for example, a reliable measurement, the question would be: can the entity reliably measure it or can it be reliably measured in the market place? There, I would very clearly say it is a question of the market. Is it capable of being reliably measured, not whether the entity can reliably measure it…." (amended by the interviewee in an earlier transcript draft)
Interviewee 3	"It is an entity perspective…it is: what does this entity control or has a present right to as a result of its interaction with the outside world?…So we've exchanged something with an outside party and its given us the right to benefits. Have we undertaken some action internally which has created something of value: an economic resource, which I can use in my relationship with the outside entity to generate cash? …So, it is trying to account from the perspective of the entity: what the entity controls, what the entity is obligated to… [But most fair value proponents say we have to go to the market]...It is a difficult question because… it is not necessary for this particular thing to be capable of being exchanged with an external party for it to be an asset, however, as long as it is able to generate future cash flows…fair value can give you the best, most faithful representation of that asset because even though this thing you have a right to could not be exchanged with an external party…you can still measure that asset on a fair value basis by saying: if I could exchange it, if I could, what would a market participant pay me for that asset given its existing location and condition? So, yes, I think the market perspective is important in determining whether or not you have something of value…If I couldn't do that because there was no market for this – it's a unique asset or whatever – I could still estimate a value by looking at what a market participant would pay were it a transferable item."
Interviewee 4	"First place I think this confuses two things. The first question is: is it my asset or isn't it my asset? If it isn't mine, whose is it? This then brings the measurement into it. You want to measure it differently because you want characteristics of me owning it versus somebody else owning it. That's not an asset issue. It's not whether it's my asset issue, its how I'm going to choose to measure my asset…"

Table 8: Functions of an asset	
Interviewee 1	[These functions were introduced by Honoré (1961) – card 2] “That’s fine. “[Can these functions be used as characteristics of an asset?] “I guess so.” […all 11 functions, you agree…] “Possibly yes”.
Interviewee 2	“These are things that an asset can do because, as I look down this list [card 2], I guess I can see many of them are features of the asset definition, such as ‘control’…”
Interviewee 3	[We put these characteristics – referring to card 2 functions – as links between the definition and measurement] “It’s sort of in a sense explaining the ‘right or other access’…” [Do you think that one asset has to have all these links? - referring to card 2 functions] No, not all of them because there may be certain restrictions on you that can be imposed by contract or by legislation…for example, there may be a restriction on you being able to *exchange* the asset, to sell it to a third party, but that doesn’t mean that its not an asset because as long as it has a capacity to generate cash flows through *use* it still means it is an asset and it’s your asset. ”
Interviewee 4	“Should functionality be part of the asset – good question. I don’t think that these eleven functions are distinctive [card 2]. In other words, if I control it, I can use it, I can sell it…”

Table 9: Separability	
Interviewee 1	"I do not think that it is important" [definition in card 3] [But later on]"… separability is important because if you have control over it [something] then chances are you could do…… so you can pass on your right to some one else" [you can transfer it]
Interviewee 2	"I am not sure that it is necessary that you have got to be able to separate something for it to be an asset." [But in order to recognise an asset it should be identified separately from the other assets…] "Ok you are back into the unit of account issue and this problem has not been resolved in the framework…[should they be separated?] "…I do not know when we should separate and when we should not separate."
Interviewee 3	"Separation, separability is not an essential characteristic…No, *it doesn't have to be* but if it is separable and someone will pay a price for it, then its evidence that you have an asset. If it is not separable, you could still have an asset as long as it is an economic resource."
Interviewee 4	"I have been on both sides of the question as to whether they have to be separable or not. I don't think the answer can be yes. I don't think they have to be separable to be assets: the fact that I can't separate it, meaning I can't sell it separate from anything else. Let's assume that I've got four things and I use them as a unit. Maybe I could sell three of them separately, but I can't sell that one. I don't know whether it's important? Maybe it's just labelling that if I label this as four assets do I get a different answer than if I labelled it asset one, two, three and four? I don't know whether this is all just a unit-of-account measurement issue, or whether it is definitional and recognition-based?"

Table 10: Measurement Separability	
Interviewee 1	"It is not past tense. Just measuring it doesn't mean you have already recognised it"
Interviewee 2	Interviewer did not ask the question
Interviewee 3	"I disagree, absolutely, because I think it implies that unless something is separable and, by virtue of being separable, measurable, then you don't have an asset."
Interviewee 4	"I just built this plant. I hired you guys to build me a plant. I turned the key, opened the door and it works. I paid a billion dollars for it. I guess we have measurement separability. It must be. I do because I got the plant now and I wrote you a cheque for a billion."

Table 11: Internally generated intangible assets	
Interviewee 1	"I recognise them" [This means that non-transactions-based internally created should be recognised?] "I think so, why not?"
Interviewee 2	Interviewer did not ask the question
Interviewee 3	"My view is that they should be recognised in the financial statements"
Interviewee 4	"We do recognise some you know: results of research and development gets capitalised…Internally generated goodwill usually doesn't, but R&D does. Brands do in some places…That's an accounting standards issue. It doesn't mean they aren't assets. Definitionally, you can't argue they aren't assets"

Appendix A: Card 1

Market Specific Event	Entity Specific Event
An entity looks to the market prices of assets and liabilities, which reflect market risk preferences and market expectations with respect to the amounts, timing and uncertainty of future cash flows.	It may differ from market value because of different expectations as to amounts or timing of future cash flows, different risk assessments or preferences… Any measurement of an asset…that differs from its market value must be based, explicitly or implicitly, on entity-specific expectations or risk preferences that differ from those of the market.

Appendix B: Card 2

A list of functions of an asset, proposed by Honoré (1961);

Control,
Use,
Manageable,
Right to capital,
Right to income,
Secure,
Transfer (Disposal),
Time horizons (life of an asset),
Prohibition to harmful use,
Liability to execution,
Residuary character.

Appendix C: Card 3

Meaning of 'Separable' or Separability' in the context of accounting asset recognition and measurement:

All the individual assets of a business, whether intangible or not, are separable from each other when it is possible to aggregate or disaggregate them without loss or gain in the recognition and measurement of those individual assets such that the sum of them would always be equal to the the whole of the assets of the business.