

Analysis

Current definition of a liability in the IPSASB Framework

7. The current definition of a liability in the IPSASB Framework contains three components (a present obligation, an outflow of resources from the entity and a past event) and is similar to the definition in the IASB’s 2010 Conceptual Framework¹⁰:

2014 IPSASB Framework	2010 IASB Framework
5.14 A liability is a <u>present obligation</u> of the entity for an <u>outflow of resources</u> that <u>results from a past event</u> .	49. A liability is a <u>present obligation</u> of the entity <u>arising from past events</u> , the settlement of which is expected to result in an <u>outflow from the entity of resources</u> embodying economic benefits.

Emphasis was added to highlight conceptual consistency between the two definitions.

8. A deficiency of the IPSASB Framework is that, while it states that an ‘outflow of resources’ is an essential attribute of a liability, it does not explain what an ‘outflow of resources’ entails. The IPSASB Framework provides limited guidance on an outflow of resources: “*a liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability*”.¹¹ The BCs are silent on the IPSASB’s reasons for adopting the term, and no examples are provided in the 2014 IPSASB Framework.¹²

Considering the IASB’s revised definition of a liability

9. The IASB revised its definition of a liability in its 2018 Framework to “*a present obligation of the entity to transfer an economic resource as a result of past events*.” (emphasis added to highlight conceptual consistency with paragraph 7).
- (a) This revised definition now explicitly refers to “transfer [of] an economic resource” rather than “outflow from the entity of resources”.
- (b) The IASB also elaborated that, to meet the criterion to transfer an economic resource, the obligation must have the potential to require the entity to transfer an economic resource to another party (or parties).¹³ (emphasis added)
10. The IASB explained in its Basis for Conclusions that it replaced the wording “outflow ... of resources” with “transfer [of] an economic resource”, because interpretations of this term (inflow or outflow) can vary widely and are often tied to a notion of a threshold level of probability.¹⁴
11. The IASB’s wording change is a clarification to, rather than a substantive change in, underlying concepts in the IASB Conceptual Framework on what items are considered to be liabilities under IFRS. Through its testing of the revised definitions, the IASB also concluded that these revised definitions do not result in inconsistencies with the IFRS standards.

¹⁰ The IASB’s 2010 definition of a liability was drawn from the *Framework for the Preparation and Presentation of Financial Statements*, which was issued by the International Accounting Standards Committee in 1989 and adopted by the IASB in 2001. Neither the IASB nor the IPSASB has aligned standards-level literature developed before the 2018 and 2014 Frameworks with those Frameworks, respectively.

¹¹ IPSASB Framework 5.16.

¹² In the development of the IPSASB Framework there was a general reluctance to include examples lest such examples be considered definitive or exclusive.

¹³ IASB Conceptual Framework, paragraph 4.26 and 4.37.

¹⁴ IASB Conceptual Framework, Basis for Conclusions 5.9(b).

