Aligning Asset Management and Financial Reporting Approaches
About ISO/TC 251

We are the ISO Technical Committee for Asset Management Systems responsible for the development of the ISO 55000 family of standards. These standards define good practices in Asset Management and requirements for a management system.

Find out more at committee.iso.org/tc251

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The ISO 55000 family of asset management standards is currently in the process of significant review and revision, and it is opportune for this article to highlight the different definitions of the term “asset” associated with current asset management and financial accounting best practices, and to outline how organisations should be aware of, and how to handle those differences using a proposed **mapping table** approach.

This mapping table will also assist in providing documented evidence to support compliance with ISO CD2 55001 clauses:

- 7.6 g) “ensure alignment, consistency and traceability of information and terminology between the financial and non-financial functions within the organisation; where differences are needed, for example in the recording of assets and recognition of their value, due to differing standards and regulatory requirements, this shall be made available as documented information and communicated”

- 7.6 h) “ensure alignment, consistency and structure of information and terminology to enable seamless integration where information is managed through different information systems”

This article is primarily intended for use by:

- the implementers of ISO 55001 Information Requirements, and
- the individuals involved in generating or using financial and non-financial asset-related information.

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1 ISO CD 55001 is in development and will replace the current ISO 55001:2014 in the future. The relevant clauses in ISO 55001:2014 are 7.5 d) and e).
The definition of the term “asset” in current draft versions of the ISO 55000 family of asset management standards is not directly consistent with the main financial standards. This difference is evident in the concept of asset under each of the standards. The asset management standard includes a definition of “asset” related to its value to the organisation and defines that value as the realisation of organisational objectives. In contrast, the financial standards include independent definitions of value and asset, i.e., those definitions are not linked to each other. For this reason, assets can be different things in asset management and financial standards.

In the following sections, each definition of assets according to the asset management standard and the financial standards are compared to demonstrate the differences.

### Current Definitions

#### Asset Management Standards

- **Asset**: ISO 55000:2014: “item, thing or entity that has potential or actual value to an organisation.”
  - Note 1 to entry: Value can be tangible or intangible, financial or non-financial, and includes consideration of risks and liabilities. It can be positive or negative at different stages of the asset life.
  - Note 2 to entry: Physical assets usually refer to equipment, inventory and properties owned by the organisation. Physical assets are the opposite of intangible assets, which are non-physical assets such as leases, brands, digital assets, use rights, licences, intellectual property rights, reputation, or agreements.
  - Note 3 to entry: A grouping of assets referred to as an asset system could also be considered as an asset.

  (At this time, this definition remains unchanged in the current draft of the ISO 55000 revision.)

- **Value**: ISO CD 55000 8.3.30: "quantifiable results in satisfying stakeholder needs and expectations." Asset management enables an organisation to realise value from assets in the achievement of its organisational objectives. What constitutes value will depend on these objectives, the nature and purpose of the organisation and the needs and expectations of its stakeholders.

  (This is the current proposed definition but may change during the remainder of the ISO 55000 development work.)

#### Financial Standards

- **Asset (IFRS – International Financial Reporting Standards)**: "An asset is a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.”

- **Asset (US GAAP – United States Generally Accepted Accounting Principles)**: "An asset is a present right of an entity to an economic benefit.”

  An asset has the following two essential characteristics:
  
  a. It is a present right.
  b. The right is to an economic benefit.
In financial accounting terms, assets can be grouped into two major types: tangible assets and intangible assets.

- **Tangible assets** contain various subclasses, including current assets and fixed assets.
  - Current assets include cash, inventory, accounts receivable, and most spare parts
  - Fixed assets include land, buildings, and equipment. Fixed assets are referred to as Property, Plant and Equipment (PP&E). These assets have a projected useful life of a year or more.

- **Intangible assets** are mostly non-physical resources and rights to economic benefits. Intangible assets include goodwill, copyrights, trademarks, patents, computer programs, and financial assets, including financial investments, bonds, and stocks.

Even if the definitions under IFRS and US GAAP are not expressed in identical terms, their meaning is the same. Therefore, there should be no difference in the recognition of assets in organisations complying with either financial standard.

Organisations worldwide produce their financial statements abiding by these or equivalent definitions on what are their assets. Likewise, financial auditors regularly verify that assets are stated consistently in their balance sheets, under the universal formula “assets = liabilities + equity”.

**Mapping Table**

Since the asset management standard states that assets must have value to the organisation, and allows each organisation to determine what constitutes value, each organisation can therefore determine what are its assets per the asset management standard (asset management assets), and which of these will be included in its asset management system (AMS). Under this requirement, an AMS can include some or all its assets as defined by the financial standards (financial assets) and can include other items that are not defined as assets by the financial standards.

The difference between the financial and asset management recognition of an asset arises because the financial standards consider only the economic benefits of assets, while asset management recognizes all other types of benefits such as benefits to society, the environment, safety, reputation, security, etc.

There is no problem in measuring value differently between asset management and finance functions because the purposes for which the assets are valued are different. The financial value of assets is produced for inclusion in the balance sheet, which represents the financial worth of an organisation. While asset management values the assets to inform asset investment and asset management decision-making.

The current trend toward integrated reporting has identified six categories in which organisations can create financial and non-financial value, widely known as “the 6 capitals”. The relationship between an organisation’s objectives and the 6 capitals can be used to identify the organisation’s asset management assets. Readers should note that there are several multi-capital reporting frameworks. The two most widely used are the 6 capitals from the Value Reporting Foundation and the 4 capitals model from the Capitals Coalition. Both have active participation from the major accounting bodies worldwide.

The following list provides what could be a mapping table showing the documented outcomes of an assessment under the proposed ISO CD2 55001 clauses 7.6 g) and h). It provides examples of items that either are or are not financial assets, and either are or can be asset management assets. The list does not pretend to be exhaustive or authoritative. It is meant to show how an organisation can set up a mapping table based on its own understanding of value, the subsequent identification of its asset management assets, and which of these will be included in its AMS.
## Conclusion

Differences in recognising assets between the asset management and financial standards exist now and may not fully align in the future. The advent of broader value reporting approaches will drive greater alignment between AM thinking and the more traditional financial reporting approaches so users should monitor these developments closely which will help to align financial thinking and AM thinking to better address, if applicable, the delivery of ESG (Environmental, Social and Corporate Governance) and SDG (Sustainable Development Goals) factors.

Given that the current versions of the asset management and financial standards include different definitions of asset, it is important to have organisational awareness and understanding of the different focus on the definition of “asset” for different purposes as described above. Where the assets are common, there should be alignment and consistency in how they are identified and recorded in the two systems.

To ensure that there is no confusion between asset management assets and financial assets, there should be a clear understanding of the differing use/application of the assets and their value recognition in the two functions.
To help organisations deal with these differences, they could develop and document a mapping table like the example provided in this article. This mapping table is meant to identify, within an organisation's AMS:

(a) Assets that provide economic benefits to be included in both the balance sheet and the AMS

(b) Assets that provide more than just economic benefits may be included only in the AMS.

This action would help organisations to comply with the requirements of ISO CD 55001 clauses 7.6 g) and h) as shown above in the abstract.