



28 February 2013

Our ref: ICAEW Rep 42/13

Mme Françoise Flores  
Chair  
European Financial Reporting Advisory Group  
13-14 Avenue des Arts  
B-1210 Brussels

By email: [commentletter@efrag.org](mailto:commentletter@efrag.org)

Dear Mme Flores

### **Clarification of Acceptable Methods of Depreciation and Amortisation**

ICAEW welcomes the opportunity to comment on EFRAG's [draft comment letter](#) on the IASB's exposure draft *Clarification of Acceptable Methods of Depreciation and Amortisation* published on 4 December 2012.

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 138,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

Attached as an appendix to this letter is ICAEW's own draft response to the IASB. The principal themes and specific detail of our response is set out in that document; in this letter we respond specifically to EFRAG's draft comment letter. In general we agree with EFRAG's conclusions. We agree with the suggestion in paragraph 12 of EFRAG's response that in some cases 'a revenue-based depreciation or amortisation method could be – when it is a close proxy – the method that best depicts, according to management's estimation, the expected pattern of consumption of the future economic benefit

embodied in assets'. In our opinion however the amendment needs more radical redrafting than that suggested by EFRAG. Indeed given that IAS 16.62 and IAS 38.98 already require depreciation / amortisation on the 'basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset' it might be questioned why the amendment is necessary at all – this requirement already being sufficient to prohibit depreciation based purely on the generation of benefits.

Yours sincerely

A handwritten signature in black ink that reads "John Boulton". The signature is written in a cursive, slightly slanted style.

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xx March 2013

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Mr Hans Hoogervorst  
International Accounting Standards Board  
30 Canon Street  
London  
EC4M 6XH

Dear Hans

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We disagree with the Board's conclusion and do not feel there is a need to amend IAS 16 or IAS 38. Both standards clearly state that depreciation/amortisation must be on the 'basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset'. Therefore any method primarily related to the generation of benefits would *prima facie* be inadmissible. It might therefore be questioned why the Board feels it is necessary explicitly to prohibit revenue based methods for reflecting 'a pattern of economic benefits being generated from operating the business' (BC2). Such a method would already be prohibited by IAS 16.62 and IAS 38.98.

In some cases it appears that 'revenue based' methods are adopted because these offer a sensible way of modelling consumption. The Board concludes in BC3 that 'the limited circumstance when revenue could be used is when the use of a revenue-based method gives the same result as the use of a units of production method'. We disagree. There are situations where the magnitude of consumption varies not only with the number of units consumed but also with the value of those units. For example, it may be observed that, irrespective of volumes sold, the retail price of a dvd shortly after it has first been released is significantly higher than the retail price for the same dvd one year later. It follows that a licensee will pay more for the right to manufacture and sell 10,000 dvds in that initial window than would be paid for the same right one year later. This suggests that the cost of benefits consumed per dvd is higher in the initial period.

BC5 suggests that unit value is likely to be proportionate to the volume of consumption. It illustrates this by correlating the lower late run value of a broadcast licence with the smaller number of viewers presumed to be watching this low value screening. This is an over simplification. In some cases it might

hold true, but equally the lower value may be due to a range of other factors. The broadcast rights may be sold overseas later in the run at a lower price than to a domestic audience despite the overseas audience being potentially larger.

Where the consumption of an asset is economically affected not, or not only, by the number of units involved, but by the value of those units then a pure units of production method will be inadequate to model the consumption of benefits. Any amendment to the standard, and we do not believe change is imperative at this time, needs to allow sufficient flexibility for the depreciation / amortisation method selected to appropriately reflect these economic factors.

Yours sincerely