

**Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)**

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**Re: ED/2012/5 Clarification of Acceptable Methods of Depreciation and Amortisation
(proposed amendments to IAS 16 and IAS 38)**

Dear Françoise,

We are pleased to have the opportunity to provide our comments in order to contribute to the Exposure Draft (ED) on Clarification of Acceptable Methods of Depreciation and Amortisation issued in December 2012.

We disagree with the proposal to define inappropriate the revenue-based amortisation method because we believe that in some circumstances revenue based method of amortisation may be a proxy that best reflect the pattern of consumption of the economic benefits embodied in the assets. This is especially true for the intangible asset arising from certain Service Concession Arrangements (SCA) in which the economic benefit embodied are exactly the revenue generated by the concession and agreed with the grantor.

Also, we think that under the current provisions of IAS 38 of paragraphs 17 and 97 the revenue based amortisation method is a method already accepted, because IAS 38.17 explicitly include "*the revenue from the sale of products or services*" in the future economic benefits flowing from an intangible asset.

Finally, we believe that the IASB should be aware that the revenue-based amortisation method is already a common and accepted method used in practice in specific circumstances to reflect the pattern of consumption of the economic benefits embodied in certain intangible assets.

The appendix of this letter reports the replies on the specific question raised in the ED.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)

APPENDIX

The OIC's response to the specific question raised in the ED.

Question 1

The IASB proposes to amend IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* to prohibit a depreciation or amortisation method that uses revenue generated from an activity that includes the use of an asset. This is because it reflects a pattern of future economic benefits being generated from the asset, rather than reflecting the expected pattern of consumption of the future economic benefits embodied in the asset. Do you agree? Why or why not?

We disagree with the proposal for a total ban of the use of the revenue based amortisation method because the pattern of consumption of the future economic benefits embodied in the asset is not always different from the pattern of future economic benefits being generated from the asset. This is because the concept of economic benefits embodied in the asset changes in relation to tangible assets and intangible assets; in fact, when IAS 16.56 states "*The future economic benefits embodied in an asset are consumed by an entity principally through its use (...)*" without explicit reference to the revenues, it seems to refer more to a physical consumption of the asset whereas IAS 38.17 includes the revenues as an example of the future economic benefits flowing from an intangible asset.

We think that the economic benefits embodied in a tangible asset (e.g. the production capacity of it) may be different from the economic benefits generated by the same tangible asset (e.g. revenues) because the economic benefits embodied in the asset can be consumed with the physical consumption while the capacity to generate economic benefits can remain unaffected. So, we may accept the clarification given by the IASB in relation to the proposed amendment to IAS 16.

For certain intangible assets, on the other hand, on the basis of IAS 38.17, we think that the revenue based amortisation method is the method that, based on the professional judgment given by the preparers, can best reflect the pattern in which the economic benefits embodied in the asset are consumed by the entity because these economic benefits may be represented exactly by the revenues.

We think that the revenue-based method can be used as a proxy when it is possible to make a direct correlation between the revenue generated and the consumption of the economic benefits embodied in the asset under amortisation. This reflects the current practice adopted by the entities.

For a better explanation, see the following theoretical examples.

Motorway concession

Year	1	2
Users	50	50
Cost planned	45	45
Effective costs	90	35
% margin	10%	10%
Toll	1	1
Toll revised	1	1,75
Revenue	50	88
Concession value	80	
Margin	5	8
Units of production method	40	40
Revenue-based method	29	51

As illustrated in the example, for an equal number of tolls, a revenue-based amortization method can best reflect the changed economic benefit consumption of the rights, passed from 50 CU of the first year to 88 CU of the second year; the units of production method, instead, does not appropriately reflect this change in the consumption because the amortization charged to profit and loss remain unchanged also if the SCA gives the operator a right to increase the rate charged to the users.

Furthermore, in these cases the physical consumption of the underlying asset is not relevant for the operator because the asset is not the object of the amortization and is devolved to the grantor in a specific condition at the end of the service arrangement, with maintenance costs charged to profit and loss during the concession.

Right to broadcast a film

As mentioned in the BC4-5 of the ED, in the cases where the advertising revenues are directly correlated with the film shown, the revenue-based method can best reflect the pattern in which the economic benefits of the asset are consumed because these rights incur in a significant decline value at the first broadcasts and a straight-line amortization method does not reflect the loss of value of the right held.

Question 2

Do you have any other comments on the proposals?

We note that there is a contradiction between the proposed amendments to IAS 16 and IAS 38 and the BC3-BC5 of the ED as the proposed amendments seem to preclude the use of the revenue-based method in all circumstances while the Basis for Conclusion allows it in particular cases. As argued above, we think that the IASB should allow the use of revenue-based method not only when the use of a revenue-based method gives rise to the same result as the use of a units of production method, because the units of production method can lead to a more uncertainty in the amortization or depreciation and that should include the requirements in the body of the standard and not only in the BC.

With reference to the examples provided by the IASB that show the circumstances in which the revenue-based method is allowed, we think that this possibility is valid not only for the intellectual property (e.g. acquired rights to broadcast a film) but also for the circumstances in which it is possible to make a direct correlation between the consumption of the economic benefits embodied in an intangible asset and the revenue generated by the intangible. The professional judgment necessary and required in principle-based standards will distinguish the cases in which a revenue based method is appropriate or not.

We do not understand the rationale of paragraphs 62B and 98B of the ED because the information about technical or commercial obsolescence of the product or service output (e.g. an expected future reduction in unit selling price, as specified in the ED) is relevant for estimating both the pattern of consumption of future economic benefits and the useful life of the asset not only when the diminishing balance method is applied but for all methods of depreciation and amortization chosen.

Finally, we would like to ask the Board to clarify the reason to require a retrospectively application of the amendments rather than a prospectively application as proposed in the past under the annual improvement.