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Berlin, 17 July 2014

Dear Françoise,

**DRAFT ENDORSEMENT ADVICE AND EFFECTS STUDY REPORT ON
CLARIFICATION OF ACCEPTABLE METHODS OF DEPRECIATION AND
AMORTISATION – AMENDMENTS TO IAS 16 AND IAS 38**

On behalf of the German IFRS Committee I am writing to comment on EFRAG's Assessment of the IASB's amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation* ('Amendments').

The IFRS Committee agree with EFRAG's view that the Amendments meet the technical criteria for endorsement.

As a national standard-setter we are not in a position to answer the questions regarding the costs that will arise for preparers and for users to implement the amendment. We therefore sent your assessment-form to the DAX30 entities and got feedback from three companies. Two companies (BMW and Infineon) do not agree with EFRAG's initial assessment that users and preparers are likely to benefit from the Amendments. They note mainly the possibly usage of the revenue-based amortization method because the comparability may be reduced when one company uses this method and another company not. Furthermore, they note the missing guidance for the possible usage of the revenue-based amortization method. Additionally, one company (Infineon) does not agree with EFRAG's initial assessment that the benefits to be derived from implementing the Amendments in the EU are likely to outweigh the costs involved. The third company (SAP) agrees generally with EFRAG's assessment, but is afraid that due to the missing guidance on how to demonstrate a high correlation between revenue and the consumption of the economic benefits the usage of the revenue-based amortization method might result in diversity in practice.



As attachments to this letter you will find our comments to the above mentioned assessment as well as those received from the DAX30 entities.

If you have any further questions, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr

President

**DRAFT ENDORSEMENT ADVICE AND EFFECTS STUDY REPORT ON
CLARIFICATION OF ACCEPTABLE METHODS OF DEPRECIATION AND
AMORTISATION – AMENDMENTS TO IAS 16 AND IAS 38**

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS

Comments should be sent to commentletters@efrag.org by 17 July 2014

EFRAG has been asked by the European Commission to provide it with advice and supporting material on the IASB's *Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38* (the 'Amendments'). In order to do that, EFRAG has been carrying out an assessment of the Amendments against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from its implementation in the European Union (the EU) and European Economic Area.

A summary of the Amendments is set out in Appendix 1.

Before finalising its two assessments, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

EFRAG initial assessments summarised in this questionnaire will be amended to reflect EFRAG's decisions on Appendix 2 and 3.

1 Please provide the following details about yourself:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

Liesel Knorr, ASCG (Accounting Standards Committee
of Germany)

- (b) Are you a:

Preparer User Other (please specify)

National Standard Setter

- (c) Please provide a short description of your activity:

see above (b)

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 – Invitation to Comment on EFRAG’s Initial Assessments

(d) Country where you are located:

Germany

(e) Contact details including e-mail address:

Liesel Knorr - c/o DRSC e.V.

Zimmerstr. 30; 10969 Berlin

knorr@drsc.de

2 EFRAG’s initial assessment of the Amendments is that they meet the technical criteria for endorsement. In other words, they are not contrary to the principle of true and fair view and they meet the criteria of understandability, relevance, reliability and comparability. EFRAG’s reasoning is set out in Appendix 2.

(a) Do you agree with this assessment?

Yes No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

(b) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of the Amendments? If there are, what are those issues and why do you believe they are relevant to the evaluation?

none

3 EFRAG is also assessing the costs that are likely to arise for preparers and for users on implementation of the Amendments in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

The results of the initial assessment of costs are set out in paragraphs 7 and 11 of Appendix 3. To summarise, EFRAG’s initial assessment is that is that the Amendments are likely to result in some one-off costs and insignificant ongoing

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 – Invitation to Comment on EFRAG's Initial Assessments

costs for preparers while they are likely to result in insignificant one-off and ongoing costs for users.

Do you agree with this assessment?

Yes No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

We as a national standard setter are not in a position to comment on this issue.

The constituents responding to this survey agree with EFRAG's assessment.

-
- 4 In addition, EFRAG is assessing the benefits that are likely to be derived from the Amendments. The results of the initial assessment of benefits are set out in paragraphs 16 of Appendix 3.

To summarise, EFRAG's initial assessment is that that users and preparers are likely to benefit from the Amendments, as the information resulting from them will (a) remove inconsistency in determining the amortisation method of intangible assets and therefore reduce complexity; and (b) increase relevance, reliability and comparability of financial information and therefore enhances users' analysis.

Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice?

We as a national standard setter are not in a position to comment on this issue.

Two constituents responding to this survey do not agree with EFRAG's assessment.

One constituent responding to this survey agree with EFRAG's assessment.

- 5 EFRAG's initial assessment is that the benefits to be derived from implementing the Amendments in the EU as described in paragraph 4 above are likely to outweigh the costs involved as described in paragraph 3 above.

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 – Invitation to Comment on EFRAG's Initial Assessments

Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice?

We as a national standard setter are not in a position to comment on this issue.

Two constituent responding to this survey agrees with EFRAG's assessment.

One constituent responding to this survey does not agree with EFRAG's assessment.

- 6 EFRAG is not aware of any other factors that should be taken into account in reaching a decision as to what endorsement advice it should give the European Commission on the Amendments.

Do you agree that there are no other factors?

Yes No

If you do not agree, please provide your arguments and indicate how this should affect EFRAG's endorsement advice?

Two constituent responding to this survey agrees with EFRAG's assessment.

One constituent responding to this survey does not agree with EFRAG's assessment.

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AMORTISATION – AMENDMENTS TO IAS 16 AND IAS 38**

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS

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EFRAG has been asked by the European Commission to provide it with advice and supporting material on the IASB's *Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38* (the 'Amendments'). In order to do that, EFRAG has been carrying out an assessment of the Amendments against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from its implementation in the European Union (the EU) and European Economic Area.

A summary of the Amendments is set out in Appendix 1.

Before finalising its two assessments, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

EFRAG initial assessments summarised in this questionnaire will be amended to reflect EFRAG's decisions on Appendix 2 and 3.

1 Please provide the following details about yourself:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

Markus Leo, Leif Steeger

- (b) Are you a:

Preparer User Other (please specify)

- (c) Please provide a short description of your activity:

Group Standards Financial Statements

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 – Invitation to Comment on EFRAG’s Initial Assessments

(d) Country where you are located:

Germany

(e) Contact details including e-mail address:

BMW Group, Markus Leo, Markus.Leo@bmw.de ;
leif.steeger@bmw.de

Petuelring 130

80788 München

2 EFRAG’s initial assessment of the Amendments is that they meet the technical criteria for endorsement. In other words, they are not contrary to the principle of true and fair view and they meet the criteria of understandability, relevance, reliability and comparability. EFRAG’s reasoning is set out in Appendix 2.

(a) Do you agree with this assessment?

Yes No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

(b) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of the Amendments? If there are, what are those issues and why do you believe they are relevant to the evaluation?

3 EFRAG is also assessing the costs that are likely to arise for preparers and for users on implementation of the Amendments in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

The results of the initial assessment of costs are set out in paragraphs 7 and 11 of Appendix 3. To summarise, EFRAG’s initial assessment is that is that the Amendments are likely to result in some one-off costs and insignificant ongoing

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 – Invitation to Comment on EFRAG’s Initial Assessments

costs for preparers while they are likely to result in insignificant one-off and ongoing costs for users.

Do you agree with this assessment?

Yes No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

- 4 In addition, EFRAG is assessing the benefits that are likely to be derived from the Amendments. The results of the initial assessment of benefits are set out in paragraphs 16 of Appendix 3.

To summarise, EFRAG’s initial assessment is that that users and preparers are likely to benefit from the Amendments, as the information resulting from them will (a) remove inconsistency in determining the amortisation method of intangible assets and therefore reduce complexity; and (b) increase relevance, reliability and comparability of financial information and therefore enhances users’ analysis.

Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice?

Comparability is not totally achieved as an entity may use revenue-based amortization method under limited circumstances under IAS 38, but not possible under IAS 16.

Complexity is partially not reduced due to lack of guidance for the derivation of such limited circumstances under IAS 38 (further definition of high correlation is missing: “Revenue and consumption...highly correlated”).

- 5 EFRAG’s initial assessment is that the benefits to be derived from implementing the Amendments in the EU as described in paragraph 4 above are likely to outweigh the costs involved as described in paragraph 3 above.

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 – Invitation to Comment on EFRAG’s Initial Assessments

Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice?

- 6 EFRAG is not aware of any other factors that should be taken into account in reaching a decision as to what endorsement advice it should give the European Commission on the Amendments.

Do you agree that there are no other factors?

Yes No

If you do not agree, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice?

**DRAFT ENDORSEMENT ADVICE AND EFFECTS STUDY REPORT ON
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Before finalising its two assessments, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

EFRAG initial assessments summarised in this questionnaire will be amended to reflect EFRAG's decisions on Appendix 2 and 3.

1 Please provide the following details about yourself:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

Infineon Technologies AG

- (b) Are you a:

X Preparer User Other (please specify)

- (c) Please provide a short description of your activity:

Infineon Technologies AG designs, develops, manufactures and markets a broad range of semiconductors and systems solutions. The focus of activities is on automotive electronics, industrial electronics and chip-card based

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 – Invitation to Comment on EFRAG’s Initial Assessments

security

(d) Country where you are located:

Germany

(e) Contact details including e-mail address:

Alexander Foltin

Am Campeon 1-12

85579 Neubiberg

Phone: +49 (89) 234 23766

Email: alexander.foltin@infineon.com

2 EFRAG’s initial assessment of the Amendments is that they meet the technical criteria for endorsement. In other words, they are not contrary to the principle of true and fair view and they meet the criteria of understandability, relevance, reliability and comparability. EFRAG’s reasoning is set out in Appendix 2.

(a) Do you agree with this assessment?

X Yes No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

(b) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of the Amendments? If there are, what are those issues and why do you believe they are relevant to the evaluation?

- 3 EFRAG is also assessing the costs that are likely to arise for preparers and for users on implementation of the Amendments in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

The results of the initial assessment of costs are set out in paragraphs 7 and 11 of Appendix 3. To summarise, EFRAG’s initial assessment is that is that the Amendments are likely to result in some one-off costs and insignificant ongoing costs for preparers while they are likely to result in insignificant one-off and ongoing costs for users.

Do you agree with this assessment?

Yes No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

- 4 In addition, EFRAG is assessing the benefits that are likely to be derived from the Amendments. The results of the initial assessment of benefits are set out in paragraphs 16 of Appendix 3.

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Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice?

Preparers: introduction of new term “closely related” adds complexity; possibly hard to establish which usage pattern more faithfully represents reality, choice will fall on linear in most cases.

Users: Profit margins earned from the usage of intangible assets will be time-variant; true basis/pattern of consumption of intangible assets hard to gauge externally;

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 – Invitation to Comment on EFRAG’s Initial Assessments

limited comparability between two companies in the same sector that could rebut, where one does and the other chooses not to

- 5 EFRAG’s initial assessment is that the benefits to be derived from implementing the Amendments in the EU as described in paragraph 4 above are likely to outweigh the costs involved as described in paragraph 3 above.

Do you agree with this assessment?

Yes X No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice?

See above

- 6 EFRAG is not aware of any other factors that should be taken into account in reaching a decision as to what endorsement advice it should give the European Commission on the Amendments.

Do you agree that there are no other factors?

X Yes No

If you do not agree, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice?

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1 Please provide the following details about yourself:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

Christian Kastler

Corporate Financial Reporting

SAP SE, 69190 Walldorf, Germany

- (b) Are you a:

Preparer User Other (please specify)

- (c) Please provide a short description of your activity:

Preparer of IFRS Consolidated Financial Statements
Co-Lead of Center of Expertise M&A

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 – Invitation to Comment on EFRAG’s Initial Assessments

(d) Country where you are located:

Germany

(e) Contact details including e-mail address:

Christian Kastler (christian.kastler@sap.com)

Dietmar-Hopp-Allee 16

69190 Walldorf, Germany

2 EFRAG’s initial assessment of the Amendments is that they meet the technical criteria for endorsement. In other words, they are not contrary to the principle of true and fair view and they meet the criteria of understandability, relevance, reliability and comparability. EFRAG’s reasoning is set out in Appendix 2.

(a) Do you agree with this assessment?

Yes No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

N/A.

(b) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of the Amendments? If there are, what are those issues and why do you believe they are relevant to the evaluation?

N/A.

3 EFRAG is also assessing the costs that are likely to arise for preparers and for users on implementation of the Amendments in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 – Invitation to Comment on EFRAG’s Initial Assessments

The results of the initial assessment of costs are set out in paragraphs 7 and 11 of Appendix 3. To summarise, EFRAG’s initial assessment is that is that the Amendments are likely to result in some one-off costs and insignificant ongoing costs for preparers while they are likely to result in insignificant one-off and ongoing costs for users.

Do you agree with this assessment?

Yes No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

N/A.

- 4 In addition, EFRAG is assessing the benefits that are likely to be derived from the Amendments. The results of the initial assessment of benefits are set out in paragraphs 16 of Appendix 3.

To summarise, EFRAG’s initial assessment is that that users and preparers are likely to benefit from the Amendments, as the information resulting from them will (a) remove inconsistency in determining the amortisation method of intangible assets and therefore reduce complexity; and (b) increase relevance, reliability and comparability of financial information and therefore enhances users’ analysis.

Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice?

N/A.

- 5 EFRAG’s initial assessment is that the benefits to be derived from implementing the Amendments in the EU as described in paragraph 4 above are likely to outweigh the costs involved as described in paragraph 3 above.

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 – Invitation to Comment on EFRAG’s Initial Assessments

Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice?

N/A.

- 6 EFRAG is not aware of any other factors that should be taken into account in reaching a decision as to what endorsement advice it should give the European Commission on the Amendments.

Do you agree that there are no other factors?

Yes No

If you do not agree, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice?

The presumption that an amortisation method based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate can be overcome in case it can be demonstrated the revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The term “highly correlated” is not defined and it might be unclear how to demonstrate the correlation. This might lead to diversity in practice.
