

10 April 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir/Madam,

Re: Exposure Draft *Clarification of Acceptable Methods of Depreciation and Amortisation*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft, *Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed Amendments to IAS 16 and IAS 38)*, issued by the IASB on 4 December 2012 (the 'ED').

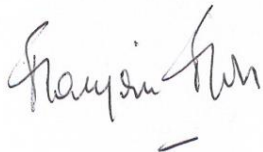
This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of the definitive IFRS in the European Union and European Economic Area.

EFRAG supports the IASB's efforts to clarify the current requirements regarding the use of revenue-based methods of depreciation and amortisation. However, we believe that the IASB should remove any language from the ED that discourages entities from applying revenue-based methods when they represent an appropriate proxy for reflecting the depreciation of the asset through its use.

Our detailed comments and responses to the questions in the ED are set out in the appendix.

If you would like to discuss our comments further, please do not hesitate to contact Giorgio Acunzo or me.

Yours sincerely,



Françoise Flores
EFRAG Chairman

APPENDIX 1

EFRAG's responses to the questions 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?

Question 2

Do you have any other comments on the proposals?

EFRAG's response

EFRAG supports the IASB's efforts to clarify the current requirements. However, we believe that the IASB should remove any language from the ED that discourages entities from applying revenue-based methods when they represent an appropriate proxy for reflecting the depreciation of the asset through its use.

Acceptable methods of depreciation and amortisation

- 1 EFRAG supports the IASB's efforts to clarify the current requirements regarding the use of revenue-based methods of depreciation and amortisation. We believe that proposed amendments are consistent with current IFRSs and clarify that IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* require that depreciation and amortisation reflect the '*pattern in which the asset's future economic benefits are expected to be consumed by the entity*' rather than the economic benefits being generated from operating the business (of which the asset is part).
- 2 However, EFRAG believes that the IASB should improve the drafting of paragraph 62A of IAS 16 and paragraph 98A of IAS 38. As drafted, these paragraphs seem to preclude the use of revenue-based depreciation and amortisation methods in all circumstances, while the Basis for Conclusions recognises that there are circumstances where revenue might be an appropriate proxy for the use of an asset.
- 3 In EFRAG's view 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. Therefore, the IASB should remove any language from the ED that discourages entities from applying revenue-based methods when they represent an appropriate proxy for reflecting the depreciation of the asset through its use.
- 4 We also note that as there is no observable physical consumption of intangible assets as well as of certain tangible assets, it is generally necessary to determine the use of the asset by reference to its output. In most cases, we believe that output can be quantified by reference of the volume of production. However, in some cases volume cannot readily be observed and reference is made to the cash

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flows generated from the use of the asset. EFRAG believes that the IASB should clarify under which circumstances entities are permitted to base their amortisation on measures other than observable volumes and include a detailed explanation of the supporting rationale in the Basis for Conclusions.

- 5 Finally, EFRAG notes that the final sentences in paragraphs 62A of IAS 16 and 98A of IAS 38 of the proposed amendments seem to contradict the general requirement in paragraph 60 of IAS 16 of revising depreciation (amortisation) process when there is a change in the expected pattern of consumption of the economic benefits embodied in the asset. Therefore, we believe that the IASB should be either improve the drafting of that sentence or delete it.

Use of Bases for Conclusions

- 6 EFRAG believes that the IASB should include all relevant accounting guidance in the standards and not in the Bases for Conclusions, which should only reflect the arguments that the IASB considered in forming its views.
- 7 In addition, we would like to note that it is not clear from the ED where the IASB intends to add the Basis for Conclusions (e.g. IAS 16, IAS 38 or both) once it finalises this project.

Diminishing balance method

- 8 EFRAG notes that the IASB has proposed to amend IAS 16 and IAS 38 to clarify that expected future reductions in the unit selling price of the product or service output of the asset could be an indicator of the diminution of the future economic benefits of the asset as a result of technical or commercial obsolescence and thereby relevant when applying the diminishing balance method.
- 9 EFRAG believes that the IASB should improve the wording of the Basis for Conclusions to explain better to constituents the reasons for making this amendment to the standards, which was introduced late in the process.

Effective date and transition

- 10 EFRAG agrees with the retrospective application of the amendments as this ensures comparability.

Consistent terminology

- 11 In EFRAG's view, any amendment to the standards using the IASB's full due process brings with it costs for the IASB and its constituents. Therefore, EFRAG believes that the IASB should focus its limited resources on making only those changes to standards that are expected to affect accounting under IFRS. However, if the IASB wishes to make these changes to the standards, we would suggest:
 - (a) to consider making these changes as editorial changes; and
 - (b) to make ensure that the references to 'unit of production' are also updated in the other standards in which they occur (i.e. IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IAS 2 *Inventories* and IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*).