EFRAG

European Financial Reporting Advisory Group

Exposure Draft Clarification of Acceptable Methods of Depreciation and Amortisation

Feedback to constituents – EFRAG Final Comment Letter

May 2013

Introduction

Objective of this feedback statement

This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by the EFRAG Technical Expert Group (EFRAG TEG) during its technical discussions.

Background to the Exposure Draft

In December 2012, the International Accounting Standards Board (IASB) published an Exposure Draft where it proposed to clarify that when applying the guidance in paragraph 62 of IAS 16 *Property, Plants and Equipment* and paragraph 98 of IAS 38 *Intangible Assets*, a revenue-based method should not be used to calculate the charge for depreciation and/or amortisation, because that method reflects a pattern of economic benefits being generated from the asset, rather than the expected pattern of consumption of the future economic benefits embodied in the asset.

The proposed amendment also provides some further guidance in the application of the diminishing balance method. Further details are available on the EFRAG website.

EFRAG's draft comment letter

EFRAG published a draft comment letter on the proposals on 14 December 2012. In the draft comment letter EFRAG tentatively supported the IASB's efforts to clarify the current requirements regarding the use of revenue-based methods of depreciation and amortisation.

However, EFRAG believed that the IASB should remove the seeming contradiction between the standard and the Basis for Conclusions of the Amendments by reflecting the reasoning presented therein – that there are circumstances where revenue might be an appropriate proxy for the use of an asset – in the body of the standard.

Comments received from constituents

Eleven comment letters were received from constituents and considered by EFRAG TEG in its discussions. These comment letters are available on the EFRAG website.

The comment letters received came from national standard-setters, business associations, professional organisations, and EU authorities.

EFRAG's final comment letter

After having consulted its constituents, EFRAG issued in April 2013 its final comment letter where it supported the IASB's efforts to clarify the current requirements regarding the use of revenue-based methods of depreciation and amortisation. However, EFRAG believed that the IASB should remove any language from the exposure draft that discourages entities from applying revenue-based methods when they represent an appropriate proxy for reflecting the depreciation of the asset through its use.

Detailed analysis of issues, comments received and changes made to EFRAG final comment letter

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Exposure Draft

EFRAG's tentative position

In the draft comment letter EFRAG tentatively supported the IASB's efforts to clarify the current requirements regarding the use of revenue-based methods of depreciation and amortisation.

However, EFRAG believed that the IASB should remove the seeming contradiction between the standard and the Basis for Conclusions of the Amendments by reflecting the reasoning presented therein – that there are circumstances where revenue might be an appropriate proxy for the use of an asset – in the body of the standard.

Constituents' comments

Generally, respondents supported EFRAG's draft comment letter.

However, the majority of respondents believed that EFRAG's comment letter should more clearly state that the text in the standards should explicitly allow for revenue-based allocation in situations where this better reflect the pattern of consumption of the economic benefits embodied in the asset.

In addition, it was noted that that the drafting in the exposure draft could contradict the general current requirement in revising depreciation (amortisation) process when there is a change in the expected pattern of consumption of the economic benefits embodied in the asset.

Finally, one constituent – while supporting EFRAG's letter – believed that the IASB should consider alternative approaches, such a complete prohibition of depreciation and amortisation that is less prudent than a given bench mark (e.g. when revenue-based methods result in earlier

EFRAG's response to constituents' comments

In its final comment letter, EFRAG supported the IASB's efforts to clarify the current requirements regarding the use of revenue-based methods of depreciation and amortisation, in agreement with all constituents.

However, the letter was amended to clarify that EFRAG believed that the IASB should remove any language from the exposure draft that discourages entities from applying revenue-based methods when they represent an appropriate proxy for reflecting the depreciation of the asset through its use. EFRAG agreed with constituents that the point needed to be made stronger than it had been in the draft comment letter.

In addition, a paragraph was added to comment the contradiction between the proposed amendments and current guidance in revising the depreciation process.

Finally, EFRAG decided not to include any comment on the request to urge the IASB to consider alternative depreciation (amortisation) approaches to the existing ones as it believed that this would require an in depth project to address this issue, whereas these amendments are intended as a narrow scope improvement.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	EFRAG's response to constituents' comments
rather than later amortisation in respect to other methods), or creating a rebuttable presumption that the method used should be at least as prudent as straight-line, with disclosure of the reasons and effect in cases where that presumption is rebutted.	

List of respondents to EFRAG's draft comment letter

Associations-Organisations:

ACTEO – AFEP - MEDEF

Institute of Chartered Accountants in England and Wales (ICAEW)

BUSINESSEUROPE

National Standard Setters:

Accounting Standards Committee of Germany (ASCG)

Autorité des Normes Comptables (ANC)

Danish Accounting Standards Committee (DASC)

Dutch Accounting Standards Board (DASB)

Financial Reporting Council (FRC)

Instituto de Contabilidad y Auditoria de Cuentas (ICAC)

Organismo Italiano di Contabilità (OIC)

Regulators:

ESMA