



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

15 March 2013

Dear Sirs,

**Exposure Draft (ED/2012/5), “Acceptable Methods of Depreciation and Amortisation”**

We welcome the opportunity to provide comments to the Exposure Draft: Acceptable Methods of Depreciation and Amortisation.

Generally, we welcome the clarification made but note that the text contained in the IFRS versus the Basis for Conclusion are contradictory. We would thus request the Board to revise the drafting in order to avoid confusion in application and diversity in practice.

Our views are set out in the appendix to this letter. If you require any further information or explanation, please do not hesitate to contact us.

Yours sincerely,

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Director  
Legal Affairs Department  
Internal Market Department



## APPENDIX

### 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 welcome the proposals presented by the Board to explicitly re-state that methods of depreciation and amortisation applied to assets should be based on activities which result from the consumption of assets by entities in the generation of future economic benefit during the useful life of such assets.

The wording in the proposed paragraph 62A seeks to “prohibit” the use of revenue based methods as a basis for depreciating or amortising assets.

*“A method that uses revenue generated from an activity that includes the use of an asset is **not** an appropriate depreciation method for that asset, because it reflects a pattern of the future economic benefits being generated from the asset, rather than a pattern of consumption of the future economic benefits embodied in the asset. Paragraph 60 establishes consumption of the benefits that were inherent in the asset when it was acquired as the principle for depreciation”.*

With reference to BC3 of the proposed amendment, the Board acknowledges a *limited circumstance* when a revenue-based method could be used as a basis for depreciating and amortising assets.

*BC 3 During its deliberations, the IASB considered the question of whether there could be limited circumstances in which revenue could be used to reflect the pattern in which the future economic benefits of the asset are expected to be consumed. **The IASB noted 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.***

In our view, it is the intention of the Board to clarify that the application of a revenue based method of depreciation and amortisation to assets’ **can, in limited circumstances**, be used as an acceptable method for depreciating and/or amortising assets but only if the depreciable amount as derived under the revenue based method gives rise to a result that is materially or approximately the same as the depreciable amount as derived when the units of production method is applied, as a basis which closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. This is exemplified in the “film rights” example.

We would suggest the Board include within the standard itself, an illustrative example which provides application guidance as to how the proposed principle should be applied in practice in order to ensure that the intention of the Board when applying the standard is achieved.



BC6 states *‘The IASB also proposes 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 (which is described as a factor for determining the useful life of an asset in paragraph 56(c) of IAS 16 and in paragraph 90(c) of IAS 38), and thereby relevant when applying the diminishing balance method.’*

With reference to BC 6, we note that the proposals contained therein are not within the actual Standard. In our view, the above sentence does not reflect the consideration of the Board but seeks to provide clarification on the application of the Standard when applying the diminishing balance method. We suggest the text be included in the Standard and not the Basis for Conclusion.

Given that complying with IFRS’s makes reference to principles in the actual standard, we reiterate that the Basis for Conclusion should reflect the considerations of the Board in reaching its conclusions as presented in the Standard at the time the Standard was written. The Basis for conclusion should not be used to clarify the intention of the Board when accounting standards are to be applied.

Also, we believe the use of the words *“technical or commercial obsolescence”* within this standard’s Basis for Conclusion may well give rise to the question – “which standard should be followed” when considering impairment events as provided for in IAS 36. It may be helpful if the Board avoided such conflict or state that IAS 36 should be followed when accounting for impairments.

## **Question 2**

### **Do you have any other comments on the proposals?**

The last sentence in the proposed paragraph 62A in IAS 16, “Paragraph 60 establishes consumption of the benefits that were inherent in the asset when it was acquired as the principle for depreciation”) is not clear when compared to what is stated in paragraphs 60 to 62, see especially the last sentence in paragraph 62 (« That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future benefits »). The same situation is inherent in the proposed paragraph 98A in IAS 38.

We believe that it clearly stated in IAS 16 and IAS 38 that if there is a change in the expected pattern of consumption, then the method for depreciation or amortisation should be changed accordingly.

Assume that the asset was originally acquired 30 years ago and that the company changes the use of the asset after that time. It would be illogical to apply the pattern of consumption of benefits in those situations based on the assessment at the time of the acquisition of the asset.

We believe that the last sentences in paragraph 62A in IAS 16 and in paragraph 98A in IAS 38 are not necessary and in order to avoid uncertainty we propose that they should be deleted.

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