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Hans Hoogervorst
Chairman of the
International Accounting Standards Board
30 Cannon Street
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United Kingdom

Berlin, 19 March 2013

Dear Hans,

Exposure Draft ED/2012/5 Clarification of Acceptable Methods of Depreciation and Amortisation – Proposed amendments to IAS 16 and IAS 38

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the IASB Exposure Draft ED/2012/5 Clarification of Acceptable Methods of Depreciation and Amortisation (herein referred to as 'ED'). We are pleased to have the opportunity to provide comments on this ED.

We appreciate that the IASB strives to clarify the requirements regarding the use of a revenue-based depreciation or amortisation method since we acknowledge the existing uncertainty about this issue.

However, we believe that the first question asked in the ED cannot be answered without clarifying the term 'economic benefits' embodied in the asset, specifically whether 'economic benefits' are seen as the physical output of the asset or as revenue generated from the use of the asset. We suggest that the IASB improves the proposed drafting in this regard.

Our detailed comments on the questions raised in the invitation to comment are set out in the appendix to this letter.

If you would like to discuss any aspects of this comment letter in detail, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President

Appendix - Answers to the questions for respondents

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 support the IASB´s intention to clarify the requirements regarding the use of a revenue-based depreciation or amortisation method since we acknowledge the existing uncertainty around this issue.

Nevertheless, we think that the IASB's question cannot be answered without clarifying the term 'economic benefits' embodied in the asset, since this term is neither defined in IAS 16 nor in IAS 38. Specifically, are economic benefits viewed (1) as the physical output of the asset or (2) as revenue generated from the use of the asset?

View 1: Economic benefits are defined as the physical output of the asset

Defining the economic benefits by reference to the physical output of the asset is convincing for tangible assets because a pattern of consumption of the future economic benefits embodied in a tangible asset can generally be determined by reference to the asset's observable output.

However, for intangible assets, an additional element is needed. This is because the pattern of consumption of the future economic benefits embodied in an intangible asset cannot always be determined by reference to the asset's output. Instead, revenues generated from the use of the intangible asset might in some cases be a good proxy for consumption.

Therefore:

- In cases in which the output of an intangible asset cannot be observed, a specific requirement should be added to IAS 38 that permits the use of revenue as a proxy in order to reflect the pattern in which the future economic benefits of the in-

tangible asset are expected to be consumed, as long as the revenue-based method is reliably measurable; and

- No equivalent requirement would be added to IAS 16 clarifying the use of a revenue-based depreciation method for tangible assets as the pattern of consumption can either be clearly identified or would otherwise revert to the default method being the straight-line method.

View 2: Economic benefits are defined as revenue generated from the use of the asset

Under this view, the revenue arising from the use of the asset reflects both, the generation of expected economic benefits, and the consumption of the future economic benefits. A good example of this is an acquired right to broadcast a film: When a film is shown for the first time, not only a significant part of the advertising revenue is generated from the use of the acquired right, but also a significant part of the future economic benefits inherent in this right is consumed with the initial showing.

Therefore, following this definition of 'economic benefits' a revenue-based method of depreciation or amortisation is neither contradictory to paragraph 60 of IAS 16 nor to paragraph 97 of IAS 38. Moreover, a revenue-based method of depreciation or amortisation would be the most appropriate method for tangible as well as for intangible assets because this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. A precondition for applying a revenue-based method is that the revenues can be allocated to a single asset that is to be depreciated or amortised. In several cases this precondition is not met because the revenues are generated by the interaction of several assets so that such a non-ambiguous allocation of revenues to a single asset is not possible, e.g. brands, licences. In these cases, the use of a time-proportionate (i.e. straight-line) depreciation or amortisation method is justified.

We suggest that the IASB clarifies which view it envisages to be followed and amends the proposal accordingly.

Question 2:

Do you have any other comments on the proposals?

We believe that the drafting of the proposed paragraphs IAS 16.62A and IAS 38.98A and paragraphs BC3 to BC5 should be improved, for the following reasons:

- Firstly, the proposed amendments in the core text of IAS 16 and IAS 38 (new paragraphs IAS 16.62A und IAS 38.98A) and in the Basis for Conclusions (new paragraphs BC3 to BC5) are contradictory. While paragraphs IAS 16.62A und IAS 38.98A seem to prohibit a revenue-based depreciation or amortisation method in all circumstances, paragraphs BC3 to BC5 state that in some limited circumstances a revenue-based method might be used as a proxy.
- Secondly, paragraphs BC3 to BC5 of the proposed Basis for Conclusions provide important accounting guidance on using a revenue-based method. We believe that this guidance should be reflected in the core text of the standards rather than in the Basis for Conclusions, which is intended to help readers to understand how the IASB reached its conclusions.

Further, the IASB proposes providing guidance in the application of the diminishing balance method by adding new paragraphs IAS 16.62B und IAS 38.98B. From the wording of these paragraphs, it is not clear to us whether the reduction in unit selling price of the product or service output should lead to an adjustment of the depreciation or amortisation charge or to an impairment according to IAS 36 *Impairment of Assets*. We suggest that the IASB removes this ambiguity and explains the reasons for adding the new paragraphs IAS 16.62B und IAS 38.98B in the Basis for Conclusions.

Finally, we believe that under cost-benefit considerations, the proposed amendments should be applied prospectively as we believe that retrospective application might be burdensome for preparers.