10 April 2013

Our ref: ICAEW Rep 56/13

Mr Hans Hoogervorst
International Accounting Standards Board
30 Canon Street
London
EC4M 6XH

Dear Hans

Clarification of Acceptable Methods of Depreciation and Amortisation

ICAEW welcomes the opportunity to comment on the exposure draft *Clarification of Acceptable Methods of Depreciation and Amortisation* published by the IASB on 4 December 2012.

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

We disagree with the Board's conclusion and do not feel there is a need to amend IAS 16 or IAS 38. Both standards clearly state that depreciation/amortisation must be on the 'basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset'. Therefore any method primarily related to the generation of benefits would *prima facie* be inadmissible. It might therefore be questioned why the Board feels it is necessary explicitly to prohibit revenue based methods for reflecting 'a pattern of economic benefits being generated from operating the business' (BC2). Such a method would already be prohibited by IAS 16.62 and IAS 38.98.

In some cases it appears that 'revenue based' methods are adopted because these offer a sensible way of modelling consumption. The Board concludes in BC3 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 unit of production method'. We disagree. There are situations where the magnitude of consumption varies not only with the number of units consumed but also with the value of those units. For example, it may be observed that, irrespective of volumes sold, the retail price of a dvd shortly after it has first been released is significantly higher than the retail price for the same dvd one year later. It follows that a licensee will pay more for the right to manufacture and sell 10,000 dvds in that initial window than would be paid for the same right one year later. This suggests that the cost of benefits consumed per dvd is higher in the initial period.

BC5 suggests that unit value is likely to be proportionate to the volume of consumption. It illustrates this by correlating the lower late run value of a broadcast licence with the smaller number of viewers presumed to be watching this low value screening. This is an over simplification. In some cases it might hold true, but equally the lower value may be due to a range of other factors. The broadcast rights may be sold overseas later in the run at a lower price than to a domestic audience despite the overseas audience being potentially larger.

Where the consumption of an asset is economically affected not, or not only, by the number of units involved, but by the value of those units then a pure units of production method will be inadequate to model the consumption of benefits. Any amendment to the standard, and we do not believe change is imperative at this time, needs to allow sufficient flexibility for the depreciation / amortisation method selected to appropriately reflect these economic factors.

Yours sincerely

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