



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically through the IASB website (www.ifrs.org)

19 April 2013

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

Dear Sirs,

IASB Exposure Draft of Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed Amendments to IAS 16 and IAS 38)

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on this Exposure Draft (ED). Our responses to the questions raised in your Invitation to Comment are set out in the Appendix for your consideration.

We support the IASB's efforts to clarify the current requirements regarding the use of revenue-generated methods of depreciation and amortization. However, we have concerns on the current drafting of the proposal. It is not clear why the revenue-based method is not an appropriate method of depreciation and amortization, particularly the discussion in paragraph BC3-BC5 of the ED which appears to be inconsistent with the proposal. We believe that the estimation of the pattern of the cash flows generated from the use of the asset may in some cases be the best available evidence of the pattern of consumption of economic benefits, particularly for intangible assets where the unit of production may not be readily observable, and revenues generated by the consumption of the economic benefits embodied in such intangible assets could be interpreted as an acceptable method of amortization.

We strongly urge the IASB to consider providing an interpretation on the term "economic benefits embodied in the asset" when determining the appropriate depreciation or amortization method to prevent divergent practices.

If you have any questions regarding the matters raised in our submission, please contact Winnie Chan, our Manager of Standard Setting at winniechan@hkicpa.org.hk.

Yours faithfully,

Simon Riley
Director, Standard Setting

SR/WC

Encl.

Comment on IASB Exposure Draft of Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed Amendments to IAS 16 and IAS 38)

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 efforts to clarify the current requirements regarding the use of revenue-based methods of depreciation and amortization. However, we have concerns on the current drafting of the proposal. It is not clear why the revenue-based method is not an appropriate method of depreciation and amortization. It appears that all the relevant accounting guidance is contained in the Basis for Conclusions rather than in the standard itself. In addition, the discussion in paragraphs BC3-BC5 of the ED seems potentially inconsistent with the proposal.

The underlying principle for recognizing depreciation and/or amortization as stated in paragraph 60 of IAS 16 and paragraph 97 of IAS 38 is to reflect the pattern in which the future economic benefits embodied in the asset are expected to be consumed by the entity. However, it is noted that the meaning of "economic benefits embodied in the asset" was not clarified in the ED. We agree with the rationale in BC1 that revenue which takes into account the expected future changes in price, is not a relevant factor in determining the amount of consumption of an asset's ability to produce outputs that generate future cash inflows. However, we believe that the estimation of the pattern of the cash flows generated from the use of the asset may in some cases be the best available evidence of the pattern of consumption of economic benefits, particularly for intangible assets where the unit of production may not be readily observable, and revenues generated by consuming such intangible assets could be interpreted as an acceptable method of amortization. Paragraph BC5 states that advertising revenue could be used to determine the pattern of amortization to the extent that advertising revenue has a linear relationship with the number of views. This appears to be inconsistent with the proposed amendment that a revenue-based method is not an appropriate method. We recommend that the IASB should seek to improve the current drafting of the proposal, if it proceeds with the amendments, and should clarify under which circumstances entities are permitted to base their amortization on measures other than observable volumes and include a detailed explanation of the supporting rationale in the Basis for Conclusions.

In addition, we strongly urge the IASB to consider providing an interpretation on the term "economic benefits embodied in the asset" when determining the appropriate depreciation or amortization method. We believe that divergence in practice is widespread. In some jurisdictions the use of a units of production approach to amortise rights to operate infrastructure projects (that are accounted for as intangible assets) is common. A revenue-based approach is common for film rights and more generally in the entertainment industry, whereas telecommunication licenses tend to be amortised on a straight line basis. It is important to develop a principle to address the



inconsistencies across industries and geographical boundaries. On 27 July 2009 we submitted a request for interpretation to the IFRS Interpretations Committee to clarify whether the term "economic benefits embodied in the asset" refers to revenue generated from the asset or refers to the asset itself. However, the IFRS Interpretations Committee decided not to add the issue to its agenda.

Question 2

Do you have any other comments on the proposals?

We do not agree with the proposed retrospective application of the amendments in IAS 16 and IAS 38 on the basis that depreciation/amortisation is itself an accounting estimate, a change in accounting estimate should be accounted for prospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

~ End ~



6 December 2012

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

**INVITATION TO COMMENT ON IASB EXPOSURE DRAFT CLARIFICATION OF
ACCEPTABLE METHODS OF DEPRECIATION AND AMORTISATION
(PROPOSED AMENDMENTS TO IAS 16 AND IAS 38)**

Comments to be received by 1 March 2013

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments on the IASB Exposure Draft which has been posted on the Institute's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/exposure-drafts/>.

As stated in the IASB's press release, accompanying the Exposure Draft, IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The objective of the proposed amendments is to ensure that preparers do not use revenue-based methods to calculate charges for the depreciation or amortisation of items of property, plant and equipment or intangible assets. This is because a revenue-based 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 issue originated from a submission to the IFRS Interpretations Committee. As a result, the Interpretations Committee recommended that the IASB should amend IAS 16 and IAS 38.

The FRSC invites your comments on the proposals. Comments should be supported by specific reasoning and should be submitted in written form. To allow your comments to be considered, in developing its response to the IASB, the FRSC requests your comments to be received by the Institute on or before **1 March 2013**.

Comments may be sent by mail, fax or e-mail to:

Simon Riley
Director, Standard Setting
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Fax number (+852) 2865 6776
E-mail: commentletters@hkicpa.org.hk

Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.