

March 22, 2013

Submitted electronically via www.ifrs.org

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

Dear Sirs,

Re: Clarification of Acceptable Methods of Depreciation and Amortisation (ED/2012/5)

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's (IASB) Exposure Draft, "Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38)," issued in December 2012.

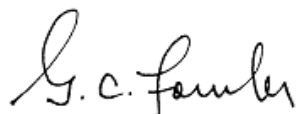
The AcSB is Canada's national accounting standard setting body, which has adopted a strategy of importing IFRSs into Canada for publicly accountable enterprises. The AcSB consists of members from a variety of backgrounds, including preparers, auditors, academics and financial statement users. Additional information about the AcSB can be found at www.frascanada.ca.

The views expressed in this letter take into account comments from individual members of the AcSB and its staff. However, they do not necessarily represent a common view of the members of the AcSB, its committees or staff. Formal positions of the AcSB are developed only through due process.

We support the amendments to IAS 16 and IAS 38 as proposed in the Exposure Draft. However, we think that some revisions are needed to clarify the proposed changes so as to address the issues raised in the Exposure Draft adequately. These suggested revisions are provided in the Appendix to this letter as part of the responses to the questions set out in the Exposure Draft.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact Peter Martin, Director, Accounting Standards at +1 416 204-3276 (email peter.martin@cica.ca) or Nicky Lahner, Principal, Accounting Standards at +1 416 204-3348 (email nicky.lahner@cica.ca).

Yours truly,

A handwritten signature in cursive script that reads "G. C. Fowler".

Gordon Fowler, FCPA, FCA
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APPENDIX

Comments of the Canadian Accounting Standards Board on the IASB’s Exposure Draft, “Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed Amendments to IAS 16 and IAS 38),” dated December 2012

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?

1. Yes. We support the proposal to prohibit a depreciation or amortization method that uses revenue generated from an activity that includes the use of an asset. We think that the proposed amendments are consistent with the current guidance in IAS 16 and IAS 38 that require the depreciation or amortization method to “reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity.” We agree that a revenue-based method reflects a pattern of economic benefits being *generated* from the operation of the business of which the asset is a part, rather than the economic benefits being *consumed* through the use of the asset.
2. In the Basis for Conclusions, the IASB acknowledges that the use of a revenue-based method may be acceptable in a limited circumstance in which such a method gives the same result as the units of production method for some types of intellectual property assets, for example acquired rights to broadcast a film (paragraphs BC3 to BC5). We disagree with providing that guidance in the Basis for Conclusions. According to the Due Process Handbook, a Basis for Conclusions explains the rationale the IASB had for the decisions it reached in developing or changing an IFRS at that time and the IASB’s responses to comments received when the proposals were exposed. When the standard is not clear, the standard should be

revised rather than the Basis for Conclusions. The Basis for Conclusions should then explain why a change was made.

3. Providing guidance in Basis for Conclusions material rather than the standards has implications in practice, as such guidance can be disregarded while an entity continues to assert full compliance with ‘IFRSs as issued by the IASB’. This is a significant issue for jurisdictions such as Canada that have adopted only the unaccompanied IFRSs. Guidance included in Basis for Conclusions is not included in national standards and is less likely to be applied by preparers in those jurisdictions. Therefore, the proposed guidance in the Basis for Conclusions on IAS 16 and IAS 38 should be included in the standard.
4. We agree that there is a limited circumstance in which the use of a revenue-based method that is based on units sold rather than total expected revenue may be appropriate (i.e. a method that does not take into account expected future changes in price). Total expected revenue is not an appropriate input because it incorporates price changes that are generally not directly linked to the consumption of the underlying asset, but instead reflect the dynamics of the market for the product or service output. Thus, we recommend that the following statements be added to paragraph 62A of IAS 16 and paragraph 98A of IAS 38 to clarify that:

“A method that utilises the number of units sold may be used when the use of such a method approximates the use of the units of production method. However the use of this method is acceptable only when the result is consistent with the underlying principle that the depreciation or amortisation method shall reflect the pattern of consumption of the future economic benefits embodied in the asset.”
5. We also note that paragraph 62A of IAS 16 and paragraph 98A of IAS 38 include a statement that paragraph 60 of IAS 16 and paragraph 97 of IAS 38 “establishes consumption of the benefits that were inherent in the asset *when it was acquired* as the principle for depreciation” (emphasis added). We are concerned that the statement “when it was

acquired” contradicts paragraph 61 of IAS 16 that requires the depreciation method to be reviewed at least at each financial year-end for significant changes in the expected pattern of consumption of the future economic benefits embodied in the asset. Similarly, paragraph 98 of IAS 38 requires the amortization method to be changed if there is a change in the expected pattern of consumption of the future economic benefits embodied in the asset. Therefore, we recommend that the statement “when it was acquired” should be removed from paragraph 62A of IAS 16 and paragraph 98A of IAS 38.

Question 2:

Do you have any other comments on the proposals?

Application of the diminishing balance method

6. Although we agree that information about technical or commercial obsolescence of the product or service output is relevant for estimating both the pattern of consumption of future economic benefits and the useful life of the asset, we do not know why this amendment was added. Paragraph BC6 of the Basis for Conclusions does not provide the reason the IASB made this change to the standards. We also do not understand why this only applies to diminishing balance method and not to other depreciation methods as well. We recommend that an explanation should be provided in the Basis for Conclusions.
7. In addition, we note that the reference to the useful life is already included in paragraph 56 (c) of IAS 16 and paragraph 90 (c) of IAS 38. Consequently, we recommend that the proposed amendment in paragraph 62B of IAS 16 and paragraph 98B of IAS 38 should not include a reference to the useful life.

Effective date and transition

8. We agree with the proposed effective date for the amendments to IAS 16 and IAS 38. We also agree that the change in the depreciation or amortization method should be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting*

Estimates and Errors. However, we do not agree that considering information about technical or commercial obsolescence when estimating the pattern of consumption of future economic benefits and the useful life of the asset should be applied retrospectively because this is a change in estimate. Changes in estimates should be applied prospectively.