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International Accounting Standards Board
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7 December 2009

Dear IFRIC member

Tentative Agenda Decision – IAS 38 Intangible Assets - Amortisation methods

The global organisation of Ernst & Young is pleased to respond to the above tentative agenda decision as published in the IFRIC Update of November 2009.

The IFRIC was asked for guidance on the meaning of 'consumption of economic benefits' when determining the appropriate amortisation method for an intangible asset with a finite useful life. The methods considered in the submissions were the straight-line method and the unit of production method (*including a revenue-based unit of production method*) – our emphasis. The IFRIC tentatively decided not to add the issue to its agenda on the basis that any guidance it could give on making the judgements necessary to determine the amortisation method would be in the nature of application guidance rather than an interpretation.

We do not agree with the IFRIC's reason for not taking this item onto its agenda and would therefore ask IFRIC to reconsider this tentative decision. We believe that it is a matter of interpretation and not application guidance as to whether a unit of production amortisation method based on estimated revenue can be a systematic basis for allocating the depreciable amount of an intangible asset with a finite useful life over its useful life. We note that both IAS 38 and IAS 16 require an amortisation or depreciation method to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity but that methods that allocate the depreciable amount in line with revenue are not used under IAS 16. Nor are such methods common under IAS 38 and it must be noted that where they are applied, as in film rights and entertainment, the result is akin to a diminishing balance method. We believe there is wide divergence in views on what economic benefits are in this respect and when expected revenue is an appropriate proxy for expected economic benefits. For example, would actual revenue, rather than expected revenue be an appropriate basis for amortisation? Would expected margin or the fair value of a one year slice of a multi-year concession be an appropriate basis?

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Finally, we consider that an interpretation regarding the use of revenue-based amortisation methods could assist in clarifying the methods that are acceptable when applying IFRIC 12's intangible asset model. On the same matter, we are particularly concerned about the suggestion raised in the IFRIC Agenda Paper 6 "IAS 38 *Intangible Assets* - Amortisation method", paragraph 13 and 14 that amortisation of the IFRIC 12 intangible asset should reflect the use of the underlying tangible asset rather than the use of the license itself. IFRIC 12 is clear in arguing that what the entity received is a license, not an item of Property Plant and Equipment and we believe it infers from that, that amortisation is based upon the use of the license rather than the tangible asset.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 20 79513152.

Yours faithfully

Ernst & Young