

STAFF PAPER

December 2013

IASB Meeting

IASB Apr 2012, Oct 2012, Oct 2013 & Nov 2013 |
IFRS IC Sep 2013, Jul 2013, Mar 2012 & Nov 2011

Project	Narrow-scope amendment: IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i>—Clarification of acceptable methods of depreciation and amortisation		
Paper topic	Due process consideration		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Purpose

1. The purpose of this paper is to set out the due process steps undertaken by the IASB in completing the narrow-scope project of *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38).

Structure of the paper

2. The purpose of this paper is therefore to:
 - (a) provide the IASB with a brief summary of the proposed amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*;
 - (b) assess whether the final amendments can be finalised or whether they need to be re-exposed before finalisation;
 - (c) discuss the mandatory effective date of the final amendments;
 - (d) explain the steps in the due process that the IASB has taken since the publication of the Exposure Draft in Appendix A to this Staff Paper;
 - (e) clarify whether any IASB members intend to dissent from the final amendment; and
 - (f) ask questions to the IASB.

Meetings when the proposed amendments to IAS 16 and IAS 38 have been discussed

3. The proposed amendments to IAS 16 and IAS 38 were discussed:
 - (a) by the IFRS Interpretations Committee (the ‘Interpretations Committee’) at its meetings in [November 2011 \(Staff Paper 13\)](#), [March 2012 \(Staff Paper 6\)](#), [September 2013 \(Staff Paper 2\)](#) and [July 2013 \(Staff Paper 6\)](#).
 - (b) by the IASB at its meetings in April 2012 ([Staff Papers 9 and 9A](#)), [Oct 2012 \(Staff Paper 9B\)](#), [Oct 2013 \(Staff Papers 13–13B\)](#) and [Nov 2013 \(Staff Paper 12C\)](#).

Summary of the proposed amendments to IAS 16 and IAS 38

4. The Interpretations Committee received a request to clarify the meaning of the term ‘consumption of the expected future economic benefits embodied in the asset’ when determining the appropriate amortisation method for intangible assets of service concession arrangements (SCA) that are within the scope of IFRIC 12 *Service Concession Arrangements*. This issue was related to the application of paragraphs 97–98 of IAS 38. The Interpretations Committee was asked to consider whether a revenue-based amortisation method or a time-based amortisation method better reflected the economic reality of the underlying contractual terms.
5. The Interpretations Committee analysed the issue raised within the context of the guidance for amortisation methods in IAS 38 and for depreciation methods in IAS 16 and recommended the IASB to amend IAS 16 and IAS 38 to clarify that the use of a revenue-based method was not appropriate.
6. In the Exposure Draft the IASB proposed to clarify that a depreciation or amortisation method that is based on revenue generated from an activity that includes the use of an asset is not appropriate, because it reflects a pattern of economic benefits being generated from operating the business (of which the asset

is part) rather than the economic benefits being consumed through the use of the asset.

7. The IASB also proposed to clarify that when applying the diminishing balance method, an expected future reduction in unit selling price of the product or service output of the asset could be an indication of the diminution of the future economic benefits of the asset as a result of technical or commercial obsolescence.
8. In response to the comment letters received on the Exposure Draft, at the November 2013 meeting the IASB decided to revise the proposed amendments and tentatively agreed to:
 - (a) state that revenue is an inappropriate basis for measuring depreciation expense, because the revenue generated by an activity that includes the use of an asset generally reflects factors other than merely the consumption of the economic benefits embodied in the asset, including other inputs and processes, selling activities and changes in sales volumes and prices.
 - (b) add a rebuttable presumption to IAS 38 that revenue is presumed to be an inappropriate basis for measuring amortisation expense, unless either it can be demonstrated that there is a strong correlation between revenue and the consumption of the economic benefits embodied in the asset or in the rare circumstances in which the rights to the intangible asset are expressed as a function of revenue.
 - (c) provide additional guidance on choosing an amortisation method by reference to the limiting factor(s) that is inherent in the intangible asset and which determine the limit of the entity's use of the intangible asset.
9. The IASB also tentatively decided to clarify that expected reductions in the selling price of goods or services could indicate the existence of commercial obsolescence, which in turn could reflect a reduction in the economic benefits remaining in the asset.

Finalisation or re-exposure

10. Paragraph 6.25 of the IFRS Foundation *Due Process Handbook* ('*Due Process Handbook*') specifies the criteria by which the IASB assesses whether the proposals can be finalised or whether they should be re-exposed.
11. In considering whether there is a need for re-exposure, the IASB:
 - (a) identifies substantial issues that emerged during the comment period on the Exposure Draft and that it had not previously considered;
 - (b) assesses the evidence that it has considered;
 - (c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and
 - (d) considers whether the various viewpoints were appropriately aired in the Exposure Draft and adequately discussed and reviewed in the Basis for Conclusions.
12. We think that the IASB's changes to the proposed amendments to IAS 16 and IAS 38 (as described in the paragraph 8) are not fundamental and respond to the feedback received. Consequently, we think that, on the basis of the re-exposure criteria in paragraphs 6.25–6.29 of the *Due Process Handbook*, the proposed amendments to IAS 16 and IAS 38 should be finalised without re-exposure.

Intention to dissent

13. When the IASB discussed the finalisation of the proposed amendment at its meeting in November 2013, no member voted against the finalisation of it. However, paragraph 6.23 of the *Due Process Handbook* implies that we formally ask whether any members intend to dissent to the final amendment before we ballot.

Due process

14. The *Due Process Handbook* sets out due process requirements for finalising a Standard.
15. In the following sections, we analyse whether the IASB has complied with all necessary due process steps based on the *Due Process Handbook*.

Consideration of comments received and consultation

Publishing an Exposure Draft

16. In December 2012 the IASB published the Exposure Draft *Clarification of Acceptable Methods of Depreciation and Amortisation* (ED/2012/5), which contained a proposal to amend IAS 16 and IAS 38. The ED was open for comment for 120 days.

Comment letters received

17. At the July 2013 meeting, the Interpretations Committee was presented with a summary and an analysis of the 98 comment letters received on the Exposure Draft.
18. At its meeting in October 2013, the IASB considered the comments received from respondents and the feedback received from the Interpretations Committee. In response to the comments received the IASB decided to revise the proposed amendments.
19. At its November 2013 meeting the IASB decided that it should proceed with the revised proposed amendments.

Further consultation

20. We did not conduct other formal outreach such as public hearings and round-table meetings because this project is a narrow-scope amendment. We also did not undertake a separate consultation with the IFRS Advisory Council because of the narrow-scope nature of the amendment.

Finalisation

Balloting

21. The balloting process of *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38) will start in January 2014 and its publication is scheduled for February 2013.

Drafting

22. The Translation team, the XBRL team and the Editorial team will review the pre-ballot draft, the ballot draft and the post-ballot draft of the amendments before publication.

Publication

23. We will undertake the due process for publication as required by the *Due Process Handbook* before issuing the final amendments.

Effective date

24. Paragraph 6.35 of the *Due Process Handbook* requires that the mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements.
25. We expect to issue the final amendments to IAS 16 and IAS 38 in Q1 of 2014. The amendments to IAS 16 and IAS 38 are narrow in scope. In addition, these proposed amendments would apply prospectively on or after the effective date. Furthermore, reducing significant diversity in practice on a timely basis is one of the main purposes of this amendment.
26. Consequently, we propose that the mandatory effective date for the amendment is 1 July 2015. We also propose that early application for the amendment is permitted.

Confirmation of due process steps

27. In Appendix A we have summarised the due process steps that we have taken since publishing the Exposure Draft. In order to summarise these steps and thereby demonstrate that we have met all the due process requirements to date, we used the due process protocol, ‘Finalisation of a Standard, Practice Guidance or Conceptual Framework chapter’, which is consistent with the *Due Process Handbook*.
28. We note that the required due process steps applicable to date for the publication of the final amendments have been completed, as documented in Appendix A.

Questions for the IASB

1. Do the IASB members agree that the proposed amendments to IAS 16 and IAS 38 should be finalised without re-exposure?
2. Do any members intend to dissent to the final amendment?
3. Do the IASB members agree with 1 July 2015 as the mandatory effective date for the final amendments to IAS 16 and IAS 38? Do the IASB members agree that earlier application should be permitted?
4. Are the IASB members satisfied that all required due process steps to date that pertain to the publication of the final amendments to IAS 16 and IAS 38 have been complied with?

Appendix A

Confirmation of due process steps followed in the finalisation of the narrow-scope project of *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*.

The following table sets out the due process steps followed by the IASB in the development of the narrow-scope project of *Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*.

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
Consideration of information gathered during consultation		
The IASB posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.	Required if request issued	All comment letters that the IASB has received (98 comment letters) on the Exposure Draft were posted on the project webpages.
Round-table meetings between external participants and members of the IASB.	Optional	Not applicable.
IASB meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	<p>The comment letter analysis prepared by the staff was discussed by the Interpretations Committee in its July 2013 meeting on the basis of a publicly available Staff Paper.</p> <p>The IASB discussed the comment letter analysis and the feedback from the Interpretations Committee at its October 2013 meeting (see Staff Papers 13–13B) and at its November 2013 meeting (see Staff Paper 12C). It tentatively decided to finalise the proposed amendments to IAS 16 and IAS 38.</p> <p>The project webpage was updated by the staff after every Interpretations Committee or IASB meeting.</p> <p>The results of the discussions of the Interpretations Committee and the IASB are also summarised in the <i>IFRIC Update</i> and the <i>IASB Update</i> for each meeting.</p>
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	<p>Because of the narrow scope and the expected limited consequences of the amendment (ie it is not a major amendment) an effect analysis is not prepared.</p> <p>However, the consequences of the narrow-scope amendment have been considered as part of the IASB's and the Interpretations Committee's discussions.</p> <p>The likely effects of the amendment are the following:</p> <ul style="list-style-type: none"> • improve financial reporting by requiring the most appropriate approach in determining the charge for depreciation of PPE and amortisation of intangible assets; and • reduce divergence in practice.
Email alerts are issued to registered	Optional	Not applicable.

Step	Required/ Optional	Actions
recipients.		
Outreach meetings to promote debate and hear views on proposals that are published for public comment.	Optional	Not applicable.
Regional discussion forums are organised with national standard-setters and the IASB.	Optional	Not applicable.
Finalisation		
Due process steps are reviewed by the IASB.	Required	This step will be met by this Staff Paper.
Need for re-exposure of a Standard is considered.	Required	Analysis of the need to re-expose is included in the main body of this Staff Paper.
The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year.	Required	Analysis of the effective date is included in the main body of this Staff Paper.
Drafting		
Drafting quality assurance steps are adequate.	Required	The Translations team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The XBRL team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Optional	The Editorial team will review the drafts during the ballot process. We will perform an editorial review of the pre-ballot draft with external parties. The pre-ballot draft will be made available to members of the International Forum of Accounting Standard Setters (IFASS).

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
Publication		
Press release to announce the final Standard.	Required	A press release will be published with the final amendments and made available to the Due Process Oversight Committee (DPOC) together with a summary of the media coverage.
A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the IASB has responded to the comments received.	Required	A Feedback Statement is not needed because the amendments are narrow in scope (ie it is not a major amendment).
Podcast to provide interested parties with high level updates or other useful information about the Standard.	Optional	Not applicable.
Standard is published.	Required	Final amendments will be made available on eIFRS on the publication date. The DPOC will be informed of the official release.