

STAFF PAPER

November 2013

IASB Meeting

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	Proposed wording for finalising the proposed amendments to IAS 16 and IAS 38.

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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 of this paper

1. The purpose of this paper is to present the revised proposed wording for finalising the proposed amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*.

Introduction

2. At the October 2013 meeting the IASB discussed the concerns expressed by the members of the IFRS Interpretations Committee (the ‘Interpretations Committee’) and their recommendations on the proposed amendments to IAS 16 and IAS 38 that had been included in the Exposure Draft (ED) *Clarification of Acceptable Methods of Depreciation and Amortisation* (ED/2012/5), published in December 2012.
3. At this meeting the IASB members expressed mixed views on the proposed amendments. The IASB asked the staff for revisions to be made to the amendment and asked the staff to bring the revised wording to a future IASB meeting.

4. In this paper we present to the IASB the revised wording for finalising the proposed amendments to IAS 16 and IAS 38.

Main concerns raised by the IASB members

Prohibiting the use of a revenue-based method

5. The main concern raised by some of the IASB members was prohibiting the use of revenue data as a proxy for determining the pattern of consumption of economic benefits. This is because some members of the IASB felt that it was too restrictive to prohibit the use of a revenue-based method in all circumstances, especially when respondents to the ED had pointed out that a revenue-based method was commonly used to amortise some intangible assets.

Proposed way forward

6. We have addressed this concern in the revised drafting of the proposed amendments by setting up a rebuttable presumption in IAS 38 that revenue is presumed to be an inappropriate basis for measuring depreciation expense unless it can be demonstrated that there is a strong correlation between revenue and the consumption of the asset.
7. We propose that this rebuttable presumption should be included in IAS 38 only because we observe that respondents to the ED objected to the prohibition of the use of a revenue-based method only in the case of amortising intangible assets and not when depreciating property, plant and equipment.
8. We think that during their discussion, IASB members were also in agreement with the proposal to allow the use of revenue as a proxy for consumption in some circumstances in the case of intangible assets, but to prohibit the use of a revenue-based method in all circumstances for property, plant and equipment.

Removing the proposed guidance in regard to the diminishing balance method

9. A couple of IASB members did not support the proposal to delete the proposed paragraph 62B in IAS 16 and paragraph 98B of IAS 38, and include instead paragraph 56(c) in IAS 16 and paragraph 92 in IAS 38 to clarify the application of the diminishing balance method. This is because they thought that this could be interpreted as if the IASB was prohibiting the use of the diminishing balance method.

Proposed way forward

10. We have addressed this concern by stating in the Basis for Conclusions that the IASB decided to clarify that reductions in the selling price could signal the existence of obsolescence, which in turn reflects a reduction in the economic benefits consumed from the asset. In this respect the IASB observed that the best way to make this clarification was to amend:
 - (a) paragraph 56(c) of IAS 16, because the guidance in this paragraph already takes into consideration technical or commercial obsolescence as a factor for determining the useful life of an asset and further explains how obsolescence could arise in some cases; and
 - (b) paragraph 90(c) of IAS 38, because the guidance in this paragraph already refers to factors to be considered in determining the useful life of an intangible asset, and among them considers: “technical, technological, commercial or other types of obsolescence”.

Addressing the principles of amortisation and depreciation in a broader project

11. Some IASB members noted that the IASB could consider addressing the principles for amortisation and depreciation in a broader project.

12. In this respect we observe that about a dozen respondents to the ED thought that the notion of ‘consumption of economic benefits’ should be defined, and they urged the IASB to consider providing guidance in this respect.
13. However, we think that explaining the notion of ‘consumption of economic benefits’ and explaining the principles for amortisation and depreciation would require a broader scope project, because doing so could mean *questioning* existing principles in IAS 16 and IAS 38. Consequently, we think that the proposed amendment should not define the notion of consumption of economic benefits or question the existing principles for depreciating property, plant and equipment or for amortising intangible assets. We think that if the IASB decides to do so we agree that this could be part of a separate, broader project on IAS 16 and IAS 38.

Proposed way forward

14. We propose explaining in the Basis for Conclusions the reasons why the IASB decided not to define the notion of consumption of economic benefits or question the existing principles for depreciating property, plant and equipment or for amortising intangible assets.

Proposed wording

15. The proposed revised wording for finalising the proposed amendments to IAS 16 and IAS 38 is included in **Appendix A** and **Appendix B** respectively. We have highlighted differences from the currently effective Standard.
16. **Appendix C** presents a marked-up version of the proposed amendments to the last presentation of the draft amendments in an IASB meeting.

Questions for the IASB

Question for the IASB

1. Does the IASB agree with the revised proposed amendments to IAS 16 and IAS 38 as described in Appendices A and B of this paper?

Appendix A

Draft wording of the proposed amendments to IAS 16, showing the differences from the currently effective Standard

Amendments to IAS 16 *Property, Plant and Equipment*

Paragraphs 56(c) and 60 are amended. Paragraphs 62A and 81H are added. Paragraphs 61–62 are not proposed for amendment but are included here for ease of reference. New text is underlined.

Depreciable amount and depreciation period

...

- 56 The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

(a) ...

- (c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand or as indicated by an anticipated reduction in the unit selling price for the product or service output of the asset.

...

Depreciation method

- 60 The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Depreciation expense is an estimate of the economic benefits of the asset consumed in a period.
- 61 The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IAS 8.

62 A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. The straight-line method results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.

62A The revenue generated by an activity that includes the use of an asset generally reflects factors other than just the consumption of the asset, including other inputs and processes, selling activities and changes in sales volumes and prices. Revenue is therefore an inappropriate basis for measuring depreciation expense.

...

Effective date

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81H Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38), issued in [date], amended paragraphs 56(c) and 60 and added paragraph 62A. An entity shall apply those amendments prospectively for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

Amendments to the Basis for Conclusions on IAS 16 *Property, Plant and Equipment*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Paragraphs BC33A–BC33N and their related heading are added.

Depreciation method

- BC33A The IASB 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 is related to the application of paragraphs 97–98 of IAS 38 *Intangible Assets*.
- BC33B This issue was raised within the context of a SCA for which:
- (a) the rate chargeable to users is contracted in the agreement; and
 - (b) a lower tariff is imposed at the beginning of the concession and increases periodically in line with the grantor’s practice, so as not to burden consumers.
- BC33C The IASB was asked to consider whether:
- (a) a revenue-based amortisation method better reflects the economics of the underlying contractual terms; or
 - (b) a time-based amortisation method is most appropriate, because it reflects the duration of the SCA for which the entity received a licence to operate the infrastructure.
- BC33D The IASB observed that a revenue-based depreciation method is one that allocates an asset’s depreciable amount based on revenues generated in an accounting period as a proportion of the total revenues expected to be generated over the asset’s useful economic life. The depreciation expense is affected by the interaction between units (ie quantity) and price and takes into account any expected changes in price.
- BC33E The IASB decided to analyse the issue raised within the context of the guidance for depreciation methods in IAS 16 and for amortisation methods in IAS 38 and considered adding some proposed amendments to both Standards to address the appropriateness of a revenue-based method for depreciating an item of property, plant and equipment or amortising an intangible asset.
- BC33F The IASB observed that paragraph 60 of IAS 16 states that the depreciation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity. The IASB also observed that the future economic benefits embodied in an asset are consumed by an entity principally through its use as described in paragraph 56 of IAS 16. The use of an asset can be assessed by reference to the asset’s expected capacity or physical output as described in paragraph 56(a) of IAS 16. Other factors are mentioned in paragraph 56(b)–(d) of IAS 16 to assist in the determination of a pattern of consumption of an asset. The IASB noted that even though revenue could sometimes be considered as a measurement of the output

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generated by the asset, revenue does not, as a matter of principle, reflect the way that an asset is used or consumed.

- BC33G In addition, the IASB observed that the price component of revenue is affected by inflation and noted that inflation has no bearing upon the way in which the asset is worn out or used up.
- BC33H On the basis of the guidance in IAS 16 and IAS 38, the IASB decided to clarify in the Exposure Draft *Clarification of Acceptable Methods of Depreciation and Amortisation* (Proposed amendments to IAS 16 and IAS 38) (the ‘ED’) that a 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.
- BC33I In the ED, the IASB indicated that in some limited circumstances, a revenue-based method could provide a reasonable approximation of the consumption of the expected economic benefits embodied in the assets when it gives the same result as the use of a units of production method.
- BC33J Some responses to the ED indicated that there was a particular conflict between the proposed guidance in the body of the Standard, which prohibited the use of a revenue-based depreciation or amortisation method in all circumstances, and the explanations in the Basis for Conclusions that introduced limited circumstances in which a revenue-based method gives the same result as a units of production method. Some had misinterpreted the explanations as allowing the use of revenue as an approximation of the pattern of consumption of an asset in circumstances other than those explained in the Basis for Conclusions.
- BC33K During its redeliberations of the ED the IASB decided to reaffirm its conclusion to prohibit the use of a revenue-based method because the principle in paragraph 60 of IAS 16 is that the “depreciation method shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity” and a method that is based on revenue generated from an activity that includes the use of an asset would be, in contrast, a method based on the generation of future economic benefits from the use of the asset. The IASB also decided to eliminate the ambiguity between the guidance in the body of the Standard and the explanations in the Basis for Conclusions by eliminating the explanations in the Basis for Conclusions of the ED that suggest limited circumstances in which a revenue-based method gives the same result as a units of production method.
- BC33L During its redeliberations, the IASB also decided to clarify that future reductions in the selling price could signal the existence of obsolescence, which, in turn, may reflect a reduction in the economic benefits available from the asset. The IASB decided to amend paragraph 56(c) of IAS 16 because the guidance in this paragraph already takes into consideration technical or commercial obsolescence as a factor to determine the useful life of an asset and further explains how obsolescence could arise in some cases.
- BC33MSome responses to the ED suggested the IASB to define the notion of ‘consumption of economic benefits’ and provide guidance in this respect. During its redeliberations the IASB noted that explaining the notion of ‘consumption of economic benefits’ would require a broader project that might result in changing the principles on which depreciation of property, plant and equipment is based.

Appendix B

Draft wording of the proposed amendments to IAS 38, showing the differences from the currently effective Standard

Amendments to IAS 38 *Intangible Assets*

Paragraphs 92 and 97 are amended. In paragraph 98, the phrase 'unit of production method' has been amended to 'units of production method'. Paragraphs 98A–98C and 130H are added. New text is underlined.

- 92 Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short. Expected reductions in the selling price of an item produced using an intangible asset could indicate the existence of commercial obsolescence, which, in turn, reflects a reduction in the economic benefits consumed from the intangible asset.

...

Amortisation period and amortisation method

- 97 The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Amortisation expense is an estimate of the economic benefits of the asset consumed in a period. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset.
- 98 A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits.

- 98A The revenue associated with an activity that includes the use of an asset generally reflects factors other than just the consumption of the asset, including other inputs and processes, selling activities and changes in sales volumes and prices. Revenue is therefore presumed to be an inappropriate basis for measuring amortisation expense. However, in the unusual circumstance in which the intangible right is expressed as a measure of revenue, as described in paragraph 98C, or when it can be demonstrated that revenue and the consumption of the intangible asset are strongly correlated, revenue could be used as the basis for measuring amortisation expense.
- 98B In choosing an appropriate amortisation method in accordance with paragraph 98, an entity could determine the limiting factor that is inherent in the intangible asset; for example, the contract that sets out the entity's rights over its use of an intangible asset might limit the entity's use of the intangible asset to a predetermined number of years (ie time) or to a number of units produced or to an amount of revenue earned. Identification of such a limiting factor could serve as the starting point for the identification of the appropriate basis of amortisation, but the entity would not be limited to using this as the basis for choosing an amortisation method.
- 98C In the circumstance in which the limiting factor that is inherent in an intangible asset is an amount of revenue generated, the revenue generated is a measure of consumption of the future economic benefits embodied in the asset. For example, an entity could acquire a concession to explore and extract gold from a gold mine. The expiry of the contract is not based on time or the amount of gold extracted, but is instead based on the amount of gross revenue obtained from the extraction (for example, a contract agreed upon an amount CU2 billion). In this case, revenue earned might be an appropriate basis for measuring consumption of an intangible asset.

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Transitional provisions and effective date

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- 130H Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38), issued in [date], amended paragraphs 92 and 97–98 and added paragraphs 98A–98C. An entity shall apply those amendments prospectively for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

Amendments to the Basis for Conclusions on IAS 38 *Intangible Assets*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

In paragraph BC72A the phrase ‘unit of production method’ has been amended to ‘units of production method’. New text is underlined.

Intangible assets with finite useful lives (paragraph 98)¹³

BC72A The last sentence of paragraph 98 previously stated, ‘There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight-line method.’ In practice, this wording was perceived as preventing an entity from using the units of production method to amortise assets if it resulted in a lower amount of accumulated amortisation than the straight-line method. However, using the straight-line method could be inconsistent with the general requirement of paragraph 38 that the amortisation method should reflect the expected pattern of consumption of the expected future economic benefits embodied in an intangible asset. Consequently, the Board decided to delete the last sentence of paragraph 98.

Paragraphs BC75A–BC75X and their related headings are added.

Amortisation method

BC75A The IASB 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 is related to the application of paragraphs 97–98 of IAS 38.

BC75B This issue was raised within the context of a SCA for which:

- (a) the rate chargeable to users is contracted in the agreement; and
- (b) a lower tariff is imposed at the beginning of the concession and increases periodically in line with the grantor’s practice so as not to burden consumers.

BC75C The IASB was asked to consider whether:

- (a) a revenue-based amortisation method better reflects the economics of the underlying contractual terms; or
- (b) a time-based amortisation method is most appropriate, because it reflects the duration of the SCA for which the entity received a licence to operate the infrastructure.

BC75D The IASB observed that a revenue-based amortisation method is one that allocates an intangible asset’s amortisable amount based on revenues generated in an accounting period as a proportion of the total revenues expected to be generated over the intangible asset’s useful economic life. The amortisation expense is affected by the interaction

between units (ie quantity) and price and takes into account any expected changes in price.

- BC75E The IASB decided to analyse the issues raised within the context of the guidance for amortisation methods in IAS 38 and for depreciation methods in IAS 16 and considered adding some proposed amendments to both Standards to address the appropriateness of a revenue-based method for depreciating property, plant and equipment or amortising an intangible asset.
- BC75F The IASB observed that paragraph 97 of IAS 38 states that the amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. During its discussions the IASB also observed that the price component of revenue is affected by inflation and noted that inflation has no bearing upon the way in which the asset is used up.
- BC75G On the basis of the guidance in IAS 38 and IAS 16, the IASB decided to clarify in the Exposure Draft *Clarification of Acceptable Methods of Depreciation and Amortisation* (Proposed amendments to IAS 16 and IAS 38) (the 'ED') that a 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.
- BC75H In the ED, the IASB indicated that in some limited circumstances a revenue-based method could provide a reasonable approximation of the consumption of the expected economic benefits embodied in the asset when a revenue-based method gave the same result as a units of production method.
- BC75I For example, some types of intellectual property assets (such as rights to films and books), while consumed over the period of the rights, generate a disproportionate amount of revenue in its initial broadcast or showing and, consequently, have utility that is consumed disproportionately with each successive usage over the asset's life. The IASB explained that if, in this case, an entity is able to identify a linear relationship between the revenue and viewer numbers, revenue could be used as an approximation of the consumption of the expected economic benefits embodied in the intangible asset.
- BC75K Some responses to the ED indicated that there was a particular conflict between the proposed guidance in the body of the Standard, which prohibited the use of a revenue-based depreciation or amortisation method in all circumstances, and the explanations in the Basis for Conclusions that introduced limited circumstances in which a revenue-based method gives the same result as a units of production method. Some had misinterpreted the explanations as allowing the use of revenue as an approximation of the pattern of consumption of an asset in circumstances other than those explained in the Basis for Conclusions.
- BC75L In addition, some respondents, mainly from the media and the entertainment industry and from the construction sector, pointed out that the consumption of economic benefits that is embodied in certain intangible assets (ie acquired rights), often may not be determinable by reference to physical outputs or general wear and tear. Consequently, those respondents observed that in some cases, a revenue-based method was more appropriate for certain intangible assets. This is because in some cases neither a straight-line amortisation method nor a units of production method was considered suitable to reflect the pattern of consumption.

- BC75M For example, some respondents with service concession arrangements noted that the nature of the intangible asset that is inherent in a service concession arrangement represents a ‘right to charge users’ or a ‘right to collect tolls from users’. Consequently, they think that the consumption of the economic benefits embodied in this intangible asset should be based on a function of both toll rates and expected traffic volume (ie a revenue-based approach).
- BC75N Some respondents from the media industry noted that there is a strong correlation between advertising revenues and viewer numbers reached for some of their acquired rights (for example, as programming rights in the television and media industries, acquired under licence for multiple broadcasts over a specified contract period) and encouraged the IASB to include guidance in the Standard that would allow the use of a revenue-based method when it gives the same result as the use of a units of production method.
- BC75O During its redeliberations of the ED the IASB decided to reaffirm its conclusion to prohibit the use of a revenue-based method because revenue is a measure of the benefits generated by an intangible asset and does not reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity. The IASB also decided to address the potential conflict between the guidance in the body of the Standard and the explanations in the Basis for Conclusions by eliminating the explanations in the Basis for Conclusions of the ED that commented on limited circumstances in which a revenue-based method gave the same result as a units of production method.
- BC75P Nevertheless, in finalising the proposed amendments to IAS 38, the IASB also considered the question of whether there could be circumstances in which revenue would be used to reflect the pattern in which the future economic benefits of the intangible asset are expected to be consumed. The IASB decided to make clear in the body of the Standard that in circumstances when it can be demonstrated that revenue and the consumption of the intangible asset are strongly correlated, revenue could be used as the basis for measuring amortisation expense. The IASB also noted that another circumstance in which revenue could be used is when the right embodied by an intangible asset is expressed as a function of revenue, in such a way that the generation of revenue is the measurement used to determine when the right expires. The IASB noted that, in this case, the pattern of consumption of future economic benefits that is embodied in the intangible asset is defined by reference to the revenue earned as a proportion of the contractual maximum and, consequently, the amount of revenue generated contractually reflects the consumption of the benefits that are embodied in the asset. The IASB noted that those circumstances do not arise in respect of items of property, plant and equipment and decided to maintain the prohibition to use a revenue-based method in all circumstances for these items.
- BC75Q The IASB also analysed the comments indicating that a revenue-based method is sometimes used in situations in which an intangible asset is used in multiple activities to provide multiple revenue streams. As noted by some respondents to the ED, this was the case of acquired rights to broadcast programmes for a number of times in several markets (multi-broadcast programming assets). In this case, the application of a units of production method did not seem practicable, because the units of production were not homogeneous. For example, the producer of a motion picture often intends to use the intellectual property embodied in the film to generate cash flows through exhibiting the film in theatres, licensing the rights to characters to manufacturers of toys and other

goods, selling DVDs or digital copies of the film, and licensing broadcast rights to television broadcasters. Consequently, respondents thought that the best way to amortise acquired rights to broadcast programmes was to use a revenue-based method, because revenue was considered a common denominator to reflect a suitable proxy of the pattern of consumption of all the multiple activities in which the acquired rights could be used.

- BC75R The IASB acknowledged that determining an appropriate amortisation method for situations in which an intangible asset is used in multiple activities and generates multiple cash flow streams in various different markets requires judgement, particularly because different factors might appear to be appropriate measures of amortisation for each of the different activities in which the intellectual property will be used.
- BC75S Nonetheless, the IASB does not think that an amortisation method based on revenue is consistent with the principle stated in paragraph 97 of IAS 38 in the case of an intangible asset used in multiple activities, because such a method is based on the benefit generated by using the asset, rather than on the consumption of the economic benefits that are embodied in the asset.
- BC75T The IASB considered suggestions that an intangible asset should be componentised for amortisation purposes in circumstances in which the asset is used to generate multiple cash flow streams. It observed that separating an asset into different components is not a new practice in business or in IFRS— it is routinely done for property, plant and equipment and IAS 16 provides guidance in this respect – but refrained from providing guidance in this respect on IAS 38, because doing so would require a proper debate and exposure as part of a specific project in IAS 38.
- BC75U The IASB also decided to provide guidance on how an entity could identify an amortisation method in response to some respondents who observed that further guidance was required in the application of paragraph 98 of IAS 38, which is limited to providing a description of the amortisation methods most commonly used. During its deliberations the IASB determined that when choosing an amortisation method an entity could determine what the limiting factor is for the use of the intangible asset; for example, a contract could be limited by a number of years (ie time) or a number of units produced or an amount of revenue earned. The IASB clarified that identifying such a limiting factor is merely a starting point for the identification of the amortisation method. An entity should follow the principle for amortisation in paragraph 90 of IAS 38 to choose an amortisation method.
- BC75V During its redeliberations, the IASB also observed that paragraph 90(c) of IAS 38 refers to factors considered in determining the useful life of an intangible asset and among them takes into consideration: “technical, technological, commercial or other types of obsolescence”. The IASB determined that further guidance could be added to paragraph 92 of IAS 38 to explain that expected reductions in the selling price could indicate the existence of commercial obsolescence, which, in turn, may reflect a reduction in the economic benefits available to be consumed from the intangible asset.
- BC75W Some responses to the ED suggested the IASB should define the notion of ‘consumption of economic benefits’ and provide guidance in this respect. During its redeliberations the IASB noted that explaining the notion of ‘consumption of economic benefits’ would require a broader project that might result in changing the principles on which amortisation of intangible assets is based.

Consistency in the use of the phrase ‘units of production’

BC75X The IASB decided to make consistent the phrase ‘units of production method’ and has therefore amended the instances of the phrase ‘unit of production method’.

Consequential amendment to the Basis for Conclusions on IFRIC 12 *Service Concession Arrangements*

In paragraph BC64, the phrase 'unit of production method' has been amended to 'units of production method'. New text is underlined.

Intangible asset (paragraph 26)

...

- BC64 The IFRIC considered whether it would be appropriate for intangible assets under paragraph 26 to be amortised using an 'interest' method of amortisation, ie one that takes account of the time value of money in addition to the consumption of the intangible asset, treating the asset more like a monetary than a non-monetary asset. However, the IFRIC concluded that there was nothing unique about these intangible assets that would justify use of a method of depreciation different from that used for other intangible assets. The IFRIC noted that paragraph 98 of IAS 38 provides for a number of amortisation methods for intangible assets with finite useful lives. These methods include the straight-line method, the diminishing balance method and the units of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits.

Appendix C1 – Draft wording of the proposed amendments to IAS 16, showing the differences to the last draft presented in an IASB meeting

Amendments to IAS 16 *Property, Plant and Equipment*

~~Paragraph~~Paragraphs 56–(c) ~~is~~and 60 are amended. Paragraphs ~~60A~~62A and ~~81G~~81H are added. Paragraphs ~~60~~61–62 are not proposed for amendment but are included here for ease of reference. New text is underlined.

Depreciable amount and depreciation period

...

- 56 The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

(a) ...

- (c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand or as indicated by a future expected~~an anticipated~~ reduction in the unit selling price for the product or service output of the asset.

...

Depreciation method

- 60 The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Depreciation expense is an estimate of the economic benefits of the asset consumed in a period.

~~60A Paragraph 60 establishes consumption of the future economic benefits that are inherent in the asset as the principle for depreciation. The resulting depreciation charge results from an estimation process and represents a measurement of the consumption of the economic benefits inherent in the asset. A method that is based on revenue generated from an activity that includes the use of an asset is, in contrast, a method based on the generation of future economic benefits from use of the asset. Such a method is therefore inconsistent with the principle in paragraph 60.~~

- 61 The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IAS 8.
- 62 A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. The straight-line method results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.

Effective date and transition

~~81G~~62A The revenue ~~associated with~~generated by an activity that includes the use of an asset generally reflects factors other than just the consumption of the asset, including other inputs and processes, selling activities and changes in sales volumes and prices. Revenue is therefore an inappropriate basis for measuring depreciation expense.

...

Effective date

...

81H *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38), issued in [date], amended ~~paragraph~~paragraphs 56(c) and 60 and added paragraph ~~60A~~62A. An entity shall apply ~~these~~those amendments prospectively for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

Amendments to the Basis for Conclusions on IAS 16 *Property, Plant and Equipment*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Paragraphs BC33A–BC33N and their related heading are added.

Depreciation method

BC33A The IASB 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 is related to the application of paragraphs 97 ~~and~~ 98 of IAS 38 *Intangible Assets*.

BC33B ~~The request~~ This issue was raised ~~this issue~~ within the context of a SCA for which:

- (a) the rate chargeable to users is contracted in the agreement; and
- (b) a lower tariff is imposed at the beginning of the concession and increases periodically in line with the grantor’s practice, so as not to burden consumers.

BC33C The IASB was asked to consider whether:

- (a) a revenue-based amortisation method better reflects the ~~economic reality~~ economics of the underlying contractual terms; or
- (b) a time-based amortisation method is most appropriate, because it reflects the duration of the SCA ~~and the fact that~~ for which the entity received a licence to operate the infrastructure.

BC33D The IASB observed that a revenue-based depreciation method is one that allocates an asset’s depreciable amount based on revenues generated in an accounting period as a proportion of ~~the~~ total revenues expected to be generated over the asset’s useful economic life. The depreciation expense is affected by the interaction between units (ie quantity) and price and takes into account ~~the~~ any expected ~~future~~ changes in price.

BC33E The IASB decided to analyse the issue raised within the context of the guidance for depreciation methods in IAS 16 and for amortisation methods in IAS 38 and considered adding some proposed amendments to both Standards to ~~clarify~~ address the ~~use~~ appropriateness of a revenue-based method for depreciating an item of property, plant and equipment or amortising an intangible asset.

BC33F The IASB observed that paragraph 60 of IAS 16 states that the depreciation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity. The IASB also observed that the future economic benefits embodied in an asset are consumed by an entity principally through its use as described in paragraph 56 of IAS 16. The use of an asset can be assessed by reference to the asset’s expected capacity or physical output as described in paragraph 56(a) of IAS 16. Other factors are mentioned in paragraph 56(b)–(d) of IAS 16 to assist in the determination of a pattern of consumption of an asset. The IASB noted that even

though revenue could sometimes be considered as a measurement of the output generated by the asset, revenue does not, as a matter of principle, reflect the way that an asset is used or consumed.

BC33G In addition, the IASB observed that the price component of revenue is sometimes affected by inflation and noted that inflation has no bearing upon the way in which the asset is worn out or used up.

BC33H On the basis of the guidance in IAS 16 and IAS 38, the IASB decided to clarify in the Exposure Draft *Clarification of Acceptable Methods of Depreciation and Amortisation* (Proposed amendments to IAS 16 and IAS 38), (the 'ED') that a 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.

BC33I ~~However, as part of the IASB's conclusions in~~ In the ED, the IASB indicated that in some limited circumstances, a revenue-based method could provide a reasonable approximation of the consumption of the expected economic benefits embodied in the assets when ~~a revenue-based method gave it gives~~ the same result as the use of a units of production method. ~~The IASB used broadcasting rights as an example to acknowledge that straight line amortisation would not be appropriate and opened the possibility of revenue-based amortisation being used in rare cases in which revenue had a linear relationship to viewer numbers.~~

BC33J ~~In response~~ Some responses to the ED ~~of this amendment, the IASB received many comment letters claiming the existence of some ambiguity indicated that there was a particular conflict~~ between the proposed guidance in the body of the Standard ~~(both IAS 16 and IAS 38),~~ which prohibited the use of a revenue-based depreciation or amortisation method in all circumstances, and the explanations in the BCBasis for Conclusions that introduced limited circumstances in which a revenue-based method gives the same result as a units of production method. Some had misinterpreted the explanations ~~in the BC~~ as allowing the use of revenue as an approximation of the pattern of consumption of an asset in circumstances other than those explained in the Basis for Conclusions.

~~BC33K In addition, some respondents, mainly from the media and the entertainment industry and from the construction sector, pointed out that the consumption of economic benefits inherent in certain intangible assets (ie acquired rights), may often not be determinable by reference to physical outputs or general wear and tear, and consequently those commentators thought that in some cases, a revenue-based method was more appropriate for certain intangible assets. This is because in some cases neither a straight line amortisation method nor a units of production method was considered suitable to reflect the pattern of consumption of the economic benefits of the asset.~~

BC33L K During its redeliberations of the ED the IASB decided to reaffirm its conclusion to prohibit the use of a revenue-based method, ~~by emphasising the main principle for depreciating assets in paragraph 60 of IAS 16, because the principle in paragraph 60 of IAS 16 is that the "depreciation method shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity" and a method that is based on revenue generated from an activity that includes the use of an asset would be, in contrast, a method based on the generation of future economic benefits from the use of the asset.~~ The IASB also decided to eliminate the ambiguity between the

guidance in the body of the Standard (~~both in IAS 16 and IAS 38~~) and the explanations in the Basis for Conclusions by eliminating the explanations in the ~~BC introducing~~ Basis for Conclusions of the ED that suggest limited circumstances in which a revenue-based method gives the same result as a units of production method.

~~BC33M~~ BC33L During its redeliberations, the IASB also decided to clarify that future reductions in the selling price could signal the existence of obsolescence, which, in turn, may reflect a reduction in the economic benefits ~~consumed~~ available from the asset. ~~Consequently, the~~ The IASB decided to amend paragraph 56(c) of IAS 16: because the guidance in this paragraph already takes into consideration technical or commercial obsolescence as a factor to determine the useful life of an asset and further explains how obsolescence could arise in some cases.

~~BC33M~~ BC33NM Some responses to the ED suggested the IASB to define the notion of ‘consumption of economic benefits’ and provide guidance in this respect. During its redeliberations the IASB noted that explaining the notion of ‘consumption of economic benefits’ would require a broader project that might result in changing the principles on which depreciation of property, plant and equipment is based.

Appendix C2 – Draft wording of the proposed amendments to IAS 38, showing the differences to the last draft presented in an IASB meeting

Amendments to IAS 38 *Intangible Assets*

Paragraphs 92 and 97 are amended. In paragraph 98, the phrase 'unit of production method' has been amended to 'units of production method'. Paragraphs ~~97A~~, ~~98A–98B~~98C and ~~130G~~130H are added. ~~Paragraphs 92 and 98 are amended. Paragraph 97 is not proposed for amendment but is included here for ease of reference.~~ New text is underlined.

~~Amortisation period and amortisation method~~

- 92 Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short. FutureExpected reductions in the selling price of an item produced using an intangible asset could indicate the existence of commercial obsolescence, which, in turn, reflects a reduction in the economic benefits consumed from the intangible asset.

...

Amortisation period and amortisation method

- 97 The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Amortisation expense is an estimate of the economic benefits of the asset consumed in a period. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

~~97A Paragraph 97 establishes consumption of the future economic benefits that are inherent in the asset as the principle for amortisation. The resulting amortisation charge results from an estimation process and represents a measurement of the consumption of the economic benefits inherent in the asset. A method that is based on revenue generated from an activity that includes the use of an asset is, in contrast, a method based on the generation of future economic benefits from use of the asset, except in the unusual circumstance in which the intangible right is expressed as a measure of revenue as described in paragraph 98B. A revenue based method is therefore inconsistent with the principle in paragraph 97.~~

98 A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits.

~~98A The revenue generated from an activity that includes the use of an asset generally reflects factors other than just the consumption of the asset, including other inputs and processes, selling activities and changes in sales volumes and prices. Revenue is therefore presumed to be an inappropriate basis for measuring amortisation expense. However, in the unusual circumstance in which the intangible right is expressed as a measure of revenue, as described in paragraph 98C, or when it can be demonstrated that revenue and the consumption of the intangible asset are strongly correlated, revenue could be used as the basis for measuring amortisation expense.~~

~~98B In choosing an appropriate amortisation method in accordance with paragraph 98, an entity could determine the limiting factor that is inherent in the intangible asset; for example, the contract that sets out the entity's rights over its use of an intangible asset might limit the entity's use of the intangible asset to a predetermined number of years (ie time) or to a number of units produced or to an amount of revenue earned. Identification of such a limiting factor ~~would~~ could serve as the starting point for the identification of the appropriate basis of amortisation ~~method~~, but the entity would not be limited to using this as the basis for choosing an amortisation method.~~

~~98B98C In the circumstance in which the limiting factor that is inherent in an intangible asset is an amount of revenue generated, the revenue generated is a measure of consumption of the future economic benefits embodied in the asset. For example, an entity could acquire a concession to explore and extract gold from a gold mine. The expiry of the contract is not based on time or the amount of gold extracted, but is instead based on the amount of gross revenue obtained from the extraction (~~eg~~for example, a contract agreed upon an amount CU 2CU2 billion). In ~~another example, the right to operate a toll road could be based on the amount of this case, revenue obtained based on the cumulative tolls that have been charged (eg a contract agreed upon earned might be an amount CU 100 million of cumulative tolls charged)~~ appropriate basis for measuring consumption of ~~an~~the intangible asset.~~

...

Effective Transitional provisions and effective date and transition

~~130G~~ ...

130H *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38), issued in [date], ~~amended paragraphs 92 and 97–98 and added paragraphs 97A and 98A–98C and amended paragraph 98.~~ An entity shall apply ~~these~~ those amendments prospectively for annual periods beginning on or after [date]. Earlier application is permitted. ~~If an entity applies those amendments for an earlier period it shall disclose that fact.~~

Amendments to the Basis for Conclusions on IAS 38 *Intangible Assets*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

In paragraph BC72A the phrase ‘unit of production method’ has been amended to ‘units of production method’. New text is underlined.

Intangible assets with finite useful lives (paragraph 98)¹³

BC72A ~~The last sentence of paragraph 98 previously stated, ‘There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight-line method.’ In practice, this wording was perceived as preventing an entity from using the units of production method to amortise assets if it resulted in a lower amount of accumulated amortisation than the straight-line method. However, using the straight-line method could be inconsistent with the general requirement of paragraph 38 that the amortisation method should reflect the expected pattern of consumption of the expected future economic benefits embodied in an intangible asset. Consequently, the Board decided to delete the last sentence of paragraph 98.~~

Paragraphs BC75A–BC75X and their related headings are added.

Amortisation method

BC75A The IASB 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 is related to the application of paragraphs 97 ~~and~~ 98 of IAS 38, ~~*Intangible Assets*~~.

BC75B ~~The request raises this~~ This issue was raised within the context of a SCA for which:

- (a) the rate chargeable to users is contracted in the agreement; and
- (b) a lower tariff is imposed at the beginning of the concession and increases periodically in line with the grantor's practice so as not to burden consumers.

BC75C The IASB was asked to consider whether:

- (a) a revenue-based amortisation method better reflects the ~~economic reality~~ economics of the underlying contractual terms; or
- (b) a time-based amortisation method is most appropriate, because it reflects the duration of the SCA ~~and the fact that~~ for which the entity received a licence to operate the infrastructure.

BC75D The IASB observed that a revenue-based amortisation method is one that allocates an intangible asset's amortisable amount based on revenues generated in an accounting period as a proportion of the total revenues expected to be generated over the intangible asset's useful economic life. The amortisation expense is affected by the interaction between units (ie quantity) and price and takes into account ~~the any~~ expected ~~future~~ changes in price.

BC75E The IASB decided to analyse the issues raised within the context of the guidance for amortisation methods in IAS 38 and for depreciation methods in IAS 16 and considered adding some proposed amendments to both Standards to ~~clarify~~ address the ~~use~~ appropriateness of a revenue-based method for amortising an intangible asset.

BC75F The IASB observed that paragraph 97 of IAS 38 states that the amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. ~~On the basis of this guidance the IASB concluded that a method that is based on revenue generated from an activity that includes the use of an asset is not appropriate for amortising an asset (except in the unusual circumstance in which the intangible right is expressed as a measure of revenue). During its discussions the IASB also observed that the price component of revenue is affected by inflation and noted that inflation has no bearing upon the way in which the asset is used up.~~

~~BC75G During its discussions the IASB also observed that the price component of revenue is sometimes affected by inflation and noted that inflation has no bearing upon the way in which the asset is worn out or used up.~~

~~BC75H~~ BC75G On the basis of the guidance in IAS 38 and IAS 16, the IASB decided to clarify in the Exposure Draft *Clarification of Acceptable Methods of Depreciation and Amortisation* (Proposed amendments to IAS 16 and IAS 38 ~~+~~) (the 'ED') that a 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.

~~BC75I~~ BC75H However, as part of the IASB's conclusions in BC75H In the ED, the IASB indicated that in some limited circumstances, a revenue-based method could provide a reasonable approximation of the consumption of the expected economic benefits embodied in the ~~assets~~ asset when a revenue-based method gave the same result as a

units of production method. ~~The IASB used broadcasting rights as an example to acknowledge that straight-line amortisation would not be appropriate and opened the possibility of revenue-based amortisation being used in rare cases in which revenue had a linear relationship to viewer numbers.~~

BC75I ~~For example, some types of intellectual property assets (such as rights to films and books), while consumed over the period of the rights, generate a disproportionate amount of revenue in its initial broadcast or showing and, consequently, have utility that is consumed disproportionately with each successive usage over the asset's life. The IASB explained that if, in this case, an entity is able to identify a linear relationship between the revenue and viewer numbers, revenue could be used as an approximation of the consumption of the expected economic benefits embodied in the intangible asset.~~

BC75K ~~In response~~Some responses to the ED of this amendment, the IASB received many comment letters claiming the existence of some ambiguity~~indicated that there was a particular conflict~~ between the proposed guidance in the body of the Standard ~~(both IAS 16 and IAS 38),~~² which prohibited the use of a revenue-based depreciation or amortisation method in all circumstances, and the explanations in the ~~BC~~Basis for Conclusions that introduced limited circumstances in which a revenue-based method gives the same result as a units of production method. Some had misinterpreted ~~that~~ the explanations ~~in the BC~~ as allowing the use of revenue as an approximation of the pattern of consumption of an asset in circumstances other than those explained in the Basis for Conclusions.

BC75L In addition, some respondents, mainly from the media and the entertainment industry and from the construction sector, pointed out that the consumption of economic benefits ~~inherent~~that is embodied in certain intangible assets (ie acquired rights), ~~may~~ often ~~may~~ not be determinable by reference to physical outputs or general wear and tear, ~~and consequently.~~ Consequently, those respondents observed that in some cases, a revenue-based method was more appropriate for certain intangible assets. This is because in some cases neither a straight-line amortisation method nor a units of production method was considered suitable to reflect the pattern of consumption.

BC75M For example, some respondents with service concession arrangements ~~insisted~~noted that the nature of the intangible asset that is inherent in a service concession arrangement represents a 'right to charge users' or a 'right to collect tolls from users'. Consequently, ~~they believe~~think that the consumption of the economic benefits embodied in this intangible asset should be based on a function of both toll rates and expected traffic volume (ie a revenue-based approach).

BC75N Some respondents from the media industry ~~reminded the IASB of the~~noted that there is a strong correlation between advertising revenues and viewer numbers reached for some of their acquired rights (~~eg~~for example, as programming rights in the television and media industries, acquired under licence for multiple ~~free TV~~ broadcasts over a specified contract period) and encouraged the IASB to include guidance in the Standard ~~allowing for that would~~ allow the use of a revenue-based method when ~~this~~it gives the same result as the use of a units of production method.

~~BC75O~~During BC75O During its redeliberations of the ED the IASB decided to reaffirm its conclusion to prohibit the use of a revenue-based method ~~by emphasising because revenue is a measure of the main principle for amortising~~benefits generated by an intangible assets in paragraph 97 of IAS 38,~~asset and does not reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.~~

The IASB also decided to ~~eliminate~~address the ~~ambiguity~~potential conflict between the guidance in the body of the Standard (~~both in IAS 16 and IAS 38~~) and the explanations in the Basis for Conclusions by eliminating the explanations in the ~~BC introducing Basis for Conclusions of the ED that commented on~~ limited circumstances in which a revenue-based method ~~gives~~gave the same result as a units of production method. ~~With this action the IASB avoided creating rules by referring to any circumstance in which a revenue-based method would give the same result as the use of a units of production method.~~

BC75P ~~The~~Nevertheless, in finalising the proposed amendments to IAS 38, the IASB also considered the question of whether there could be circumstances in which revenue ~~could~~would be used to reflect the pattern in which the future economic benefits of the intangible asset are expected to be consumed. The IASB decided to make clear in the body of the Standard that in circumstances when it can be demonstrated that revenue and the consumption of the intangible asset are strongly correlated, revenue could be used as the basis for measuring amortisation expense. The IASB also noted that ~~the only another~~ circumstance in which ~~the amount of expected~~ revenue could be used ~~to determine the amortisation charge~~ is when the right embodied by an intangible asset is ~~contractually~~ expressed as a function of revenue, in such a way that the generation of revenue is the measurement used to determine when the right expires. The IASB noted that, in this case, the pattern of consumption of future economic benefits ~~inherent that is embodied~~ in the intangible asset is defined by reference to the revenue earned as a proportion of the contractual maximum and, consequently, the amount of revenue generated contractually reflects the consumption of the benefits ~~inherent in the asset that is~~ embodied in the asset. The IASB noted that those circumstances do not arise in respect of items of property, plant and equipment and decided to maintain the prohibition to use a revenue-based method in all circumstances for these items.

BC75Q The IASB also analysed the comments indicating that a revenue-based method is sometimes used in situations in which an intangible asset is used in multiple activities to provide multiple revenue streams. As ~~expressed~~noted by some respondents to the ED, this was the case of acquired rights to broadcast programmes for a number of times in several markets (multi-broadcast programming assets). In this case, the application of a units of production method did not seem practicable, because the units of production were ~~various and~~ not homogeneous. For example, the producer of a motion picture often intends to use the intellectual property embodied in the film to generate cash flows through exhibiting the film in theatres, licensing the rights to characters to manufacturers of toys and other goods, selling DVDs or digital copies of the film, and licensing broadcast rights to television broadcasters. Consequently, respondents thought that the best way to amortise acquired rights to broadcast programmes was to use a revenue-based method, because revenue ~~reflects~~was considered a common denominator to reflect a suitable proxy of the pattern of consumption of all the multiple activities in which the acquired rights could be used.

BC75R The IASB acknowledged that determining an appropriate amortisation method for situations in which an intangible asset is used in multiple activities and generates multiple cash flow streams in various different markets requires ~~significant~~ judgement, particularly because different factors might appear to be appropriate measures of amortisation for each of the different activities in which the intellectual property will be used.

BC75S Nonetheless, the IASB does not ~~believe~~think that an amortisation method based on revenue is consistent with the principle stated in paragraph 97 of IAS 38 in the case of an intangible asset used in multiple activities, because such a method is based on the benefit generated by using the asset, rather than on the consumption of the economic benefits ~~already inherent~~that are embodied in the asset.

BC75T— The IASB ~~also considered~~ suggestions that an intangible asset should be componentised for amortisation purposes in circumstances in which the asset is used to generate multiple cash flow streams. It observed that separating an asset into different components is not a new practice in business or in IFRS ~~(because_ it is routinely done for property, plant and equipment)~~ and IAS 16 provides guidance in this respect _ but refrained from providing guidance in this respect ~~in on~~ IAS 38, because doing so would require a proper debate and exposure as part of a specific project in IAS_38. ~~Consequently, how an entity separates an asset into different components, or how an entity determines an appropriate method of amortisation for each portion identified, would require the use of judgement.~~

BC75U The IASB also decided to provide guidance on how an entity could ~~choose~~identify an amortisation method in response to some respondents ~~that~~who observed that further guidance was required in the application of paragraph 98 of IAS 38, which ~~contains~~is limited to providing a description of the amortisation methods most commonly used. During its deliberations the IASB determined that ~~in when~~ choosing an amortisation method an entity could determine what the limiting factor is for the use of the intangible asset; for example, a contract could be limited by a number of years (ie time) or a number of units produced or an amount of revenue earned. The IASB clarified that identifying such a limiting factor is merely a starting point for the identification of the amortisation method. An entity should follow the principle for amortisation in paragraph 90 of IAS 38 to choose an amortisation method.

BC75V —During its ~~deliberations~~redeliberations, the IASB also observed that paragraph 90(c) of IAS 38 refers to factors considered in determining the useful life of an intangible asset; and among them takes into consideration: “technical, technological, commercial or other types of obsolescence”. The IASB determined that further guidance could be added to paragraph 92 of IAS 38 to explain that ~~future~~expected reductions in the selling price could indicate the existence of commercial obsolescence, which, in turn, may reflect a reduction in the economic benefits available to be consumed from the intangible asset.

~~BC75W~~ Some responses to the ED suggested the IASB ~~to~~should define the notion of ‘consumption of economic benefits’ and provide guidance in this respect. During its redeliberations the IASB noted that explaining the notion of ‘consumption of economic benefits’ would require a broader project that might result in changing the principles on which amortisation of intangible assets is based. be outside the scope of an annual improvement because doing so would mean changing an existing principle or proposing a new principle in IAS 38 for amortising an intangible asset, rather than merely clarifying this principle for amortisation

Consistency in the use of the phrase ‘units of production’

~~BC75W~~The BC75X The IASB decided to make consistent the phrase ‘units of production method’ and has therefore amended the instances of the phrase ‘unit of production method’.

Narrow-scope amendment: IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* | Clarification of acceptable methods of depreciation and amortisation

Amendments

Consequential amendment to the Basis for Conclusions on IAS 38 Intangible Assets (continued)

In paragraph BC72A the phrase 'unit of production method' has been amended to 'units of production method'. New text is underlined.

Intangible assets with finite useful lives (paragraph 98)¹³

~~BC72A The last sentence of paragraph 98 previously stated, "There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight line method." In practice, this wording was perceived as preventing an entity from using the units of production method to amortise assets if it resulted in a lower amount of accumulated amortisation than the straight line method. However, using the straight line method could be inconsistent with the general requirement of paragraph 38 that the amortisation method should reflect the expected pattern of consumption of the expected future economic benefits embodied in an intangible asset. Consequently, the Board decided to delete the last sentence of paragraph 98.~~

Amendments to the Basis for Conclusions on IFRIC 12 Service Concession Arrangements

In paragraph BC64, the phrase 'unit of production method' has been amended to 'units of production method'. New text is underlined.

Intangible asset (paragraph 26)

...

BC64 The IFRIC considered whether it would be appropriate for intangible assets under paragraph 26 to be amortised using an 'interest' method of amortisation, ie one that takes account of the time value of money in addition to the consumption of the intangible asset, treating the asset more like a monetary than a non-monetary asset. However, the IFRIC concluded that there was nothing unique about these intangible assets that would justify use of a method of depreciation different from that used for other intangible assets. The IFRIC noted that paragraph 98 of IAS 38 provides for a number of amortisation methods for intangible assets with finite useful lives. These methods include the straight-line method, the diminishing balance method and the units of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits.