pwc

Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

8 April 2013

Dear Kevin

Re: Submissions on AASB ED 228, ED 230, ED 231, ED 235 and ED 236

I am enclosing a copy of PricewaterhouseCooopers' responses to the following International Accounting Standards Board's Exposure Drafts:

- ED 228 (IASB ED/2012/3) *Equity Method: Share of Other Net Asset Changes (proposed amendments to AASB 128)*
- ED 230 (IASB ED/2012/4) *Classification and Measurement: Limited Amendments to AASB 9 (proposed amendments to AASB 9 (2010))*
- ED 231 (IASB ED/2012/5) *Clarification of Acceptable Methods of Depreciation and Amortisation (proposed amendments to AASB 116 and AASB 138)*
- ED 235 (IASB ED/2013/1) *Recoverable Amount Disclosures for Non-Financial Assets (proposed amendments to AASB 136)*
- ED 236 (IASB ED/2013/2) *Novation of Derivatives and Continuation of Hedge Accounting (proposed amendments to AASB 139 and AASB 9)*

The letters reflect the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the requests for comment. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 7104 if you would like to discuss our comments further.

Yours sincerely,

Paul Shepherd
Partner, PricewaterhouseCoopers

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Power 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
DX 77 S ydney, Australia
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

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

2 April 2013

Dear Sir/Madam

Exposure Draft ED/2012/5 – Clarification of Acceptable Methods of Depreciation and Amortisation
Proposed amendments to IAS 16 and IAS 38 ('the Exposure Draft')

We are responding to your invitation to comment on the Exposure Draft on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the Exposure Draft. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We agree with the principle of the proposed amendments although we are not convinced that the amendments are necessary. The current standards IAS 16 and IAS 38 are clear that assets are to be depreciated or amortised to reflect the pattern in which the asset's economic benefits are consumed by the entity. Conceptually, the generation of revenues is a measure of output and is not a measure of the consumption of economic benefits. We acknowledge though that the definition of economic benefits and how these are consumed are complex topics. We believe that they should be fully considered as the Board works on the new Conceptual Framework.

PricewaterhouseCoopers International Limited, 1 Embankment Place, London WC2N 6RH
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7822 4652

There may be some instances where a substantial proportion of an asset's economic benefits are consumed at the beginning of its useful life or licence period when it is used to generate significant cash flows. Some have been using revenue as a proxy for consumption in those circumstances. However, we suggest that other methods of depreciation or amortisation such as the declining balance method, with a focus on economic obsolescence, or the units of production method could achieve a similar pattern of depreciation or amortisation.

If the Board decides to proceed with the proposals in the Exposure Draft we ask the Board to clarify whether the scope of the proposed amendments includes the asset recognised for the incremental costs of securing an investment management contract (IAS 18 Illustrative examples 14 (b) (iii)).

Our responses to the specific questions posed in the invitation to comment are attached as Appendix 1 to this letter.

If you have any questions in relation to this letter please do not hesitate to contact John Hitchins, PwC Global Chief Accountant (020 7804 2497), or Mary Dolson (020 7804 2930).

Yours faithfully

PricewaterhouseCoopers

PricewaterhouseCoopers

Appendix 1

Detailed responses to the specific questions in the Exposure Draft

Question 1

The IASB proposes to amend IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible Assets* to prohibit a depreciation or amortisation method that uses revenue generated from an activity that that includes the use of an asset. This is because it reflects a pattern of future economic benefits being generated from the asset, rather than reflecting the expected pattern of consumption of the future economic benefits embodied in the asset.

Do you agree? Why or why not?

We support the principle that depreciation or amortisation based purely on revenue is not a measure of the consumption of economic benefits. We therefore consider that the existing wording of IAS 16 and IAS 38 is adequate and that the proposed amendments are not required.

However, there may be some instances where a substantial proportion of an asset's economic benefits are consumed at the beginning of its useful life or licence period when it is used to generate significant cash flows. Some have been using revenue as a proxy for consumption in those circumstances. However, in those circumstances, other methods of depreciation and amortisation, which are permitted, such as the declining balance method or the units of production method could produce a similar result.

Question 2

Do you have any other comments on the proposals?

a) If the Board decides to proceed with the proposals in the Exposure Draft we ask the Board to clarify whether the scope of the proposed amendments includes the asset recognised for the incremental costs of securing an investment management contract (IAS 18 Illustrative examples 14 (b) (iii)).

   The illustrative example in IAS 18 is read by some to permit, or even require, the use of a revenue based approach to amortisation of these costs. We note that the wording in paragraph 98 of the current exposure draft *Revenue from contracts with customers* might equally be interpreted as requiring a revenue based approach to amortisation.

b) If the Board decides to proceed with the proposed amendment, we wonder whether BC 3, 4 and 5 might be clearer. The paragraphs as currently drafted imply that a revenue based approach can be acceptable. We also suggest that the industry specific example is removed from the Basis as the principles discussed may apply to more than one industry.