



SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
www.cpc.org.br

March 4, 2013

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

RE: Exposure Draft ED/2012/5 – Clarification of acceptable methods of depreciation and amortization

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)¹ welcomes the opportunity to respond the Exposure Draft ED/2012/5 – Clarification of acceptable methods of depreciation and amortization.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

Overall, we agree with the proposals included in the Exposure Draft, which we believe will achieve the Board intention to clarify certain matters. Thus, our responses to the specific questions are:

Question 1

The IASB proposes to amend IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets to prohibit a depreciation or amortisation method that uses revenue generated from an activity that includes the use of an asset. This is because it reflects a pattern of future economic benefits being generated from the asset, rather than reflecting the expected pattern of consumption of the future economic benefits embodied in the asset. Do you agree? Why or why not?

Yes, we agree with such proposal, mainly for property, plant and equipment, since the proposed change does reflect the substance of the definition of depreciation, which is the allocation of the economical benefits of the asset to the year results during the useful life of the asset.

¹ The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).



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However, we believe that in certain industries (such as motion picture production, and oil & gas) is a common practice to determine the depreciation/amortization method based on revenues. In BC3, the Board proposes that “*The IASB noted that the limited circumstance when revenue could be used is when the use of a revenue-based method gives the same result as the use of a units of production method.*” In BC4 and BC5, the Board provides an example of amortization of acquired rights to broadcast a film, concluding that in such case, advertising revenue could serve as an equivalent to viewer numbers to determine the amortization rate of the intangible.

Considering that such concept would be useful for several industries, we believe that the Board could reconsider limiting the use of a revenue based approach only when such method “gives the same result as the use of a units of production method.” We understand that in limited cases, a revenue based method is the most appropriate approach.

Important to note that FASB supports in a broader way the use a method that considers the revenue generation power of the asset, such as under ASC 360-10-35-7, which mentions:

“Declining Balance Method

35-7 The declining-balance method is an example of one of the methods that meet the requirements of being systematic and rational. If the expected productivity or revenue-earning power of the asset is relatively greater during the earlier years of its life, or maintenance charges tend to increase during later years, the declining-balance method may provide the most satisfactory allocation of cost. That conclusion also applies to other methods, including the sum-of-the-years'-digits method, that produce substantially similar results.”

Finally, CPC believes that the rationale embedded in the Basis for Conclusion (BC3), mentioned above should be incorporated into the text of the full pronouncement itself to make IAS 16 and IAS 38 clearer.

Question 2

Do you have any other comments on the proposals?

Yes. CPC suggests that the Board consider including an orientation stating that such restriction to the use of a depreciation/amortization method based on revenue generated by the asset be treated as a change in estimate, thus having prospective effects.



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This response summarizes the views of our members, which may be supported by the opinions of external parties, sent to us for analysis and to enhance the discussion on the subject matter. We have also made efforts to encourage other external parties to send comments directly to the IASB.

If you have any questions about our comments, please contact us at operacoes@cpc.org.br.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Idésio da Silva Coelho Júnior'.

Idésio da Silva Coelho Júnior
Deputy chair of international affairs
Comite de Pronunciamentos Contabeis (CPC)