

March 29, 2013

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

Dear Sir/Madam,

**Comments on the Exposure Draft “Clarification of Acceptable Methods of
Depreciation and Amortisation
(Proposed amendments to IAS 16 and IAS 38)”**

We welcome the opportunity to provide comments on the Exposure Draft “Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38)” (hereinafter referred to as “the ED”).

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?

1. We agree with the proposal for the reasons explained below.
2. In our view, when the economic benefits embodied in an asset are consumed or diminished through its use over several accounting periods, the cost representing the economic benefits of the asset should be allocated to the periods on a systematic and reasonable basis. We believe that a depreciation method that uses revenue generated from an asset assumes that the pattern of consumption of economic benefits corresponds to the revenue arising from the output of the asset. It does

not consider the usage of the asset nor reflect the pattern of consumption of the economic benefits embodied in the asset. Instead, it is a method that reflects a pattern of economic benefits being generated from the asset.

3. In addition, a depreciation method that uses revenue generated from an asset would rely heavily on estimates of future revenues and, in some situations, might result in unreasonable outcomes, for example where the depreciation charge in a period could be nil or negative. Such outcomes would be inconsistent with the fact that economic benefits have been consumed or diminished by the use of the asset and therefore would not faithfully represent the economic substance of the transaction.

Question 2

Do you have any other comments on the proposals?

4. We would like to comment on the ED's proposal in paragraph 62B that provides further guidance on the application of the diminishing balance method of IAS 16, even it is not the specific question in the ED.
5. We agree with the proposed guidance because it would clarify the principle for recognition of depreciation when considering the diminishing balance method, as set out in paragraph 60 of IAS 16. Specifically, the guidance clarifies that an expected future reduction in unit selling price of the product or service output of an asset could be a factor in determining the expected pattern of consumption of economic benefits, as well as being a factor in estimating the useful life of the asset in accordance with paragraph 56(c) of IAS 16.

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We hope our comments will contribute to the forthcoming deliberations in the ED.

Yours sincerely,



Atsushi Kato

Vice Chairman of the Accounting Standards Board of Japan