Institute
of Certified
Public Accountants
in Israel

לשכת
רואי חשבון
בישראל

1906/32943

April 9, 2013

International Accounting Standards Board
30 Cannon Street
London EC4M6XH
United Kingdom

Dear Sir/Madam,

Re: **Exposure Draft – Clarification of Acceptable Methods of Depreciation and Amortisation**

We appreciate the opportunity to respond to the Exposure Draft "Clarification of Acceptable Methods of Depreciation and Amortisation" issued by the International Accounting Standards Board (IASB). This response represents the views of the Institute of Certified Public Accountants in Israel.

We agree with the notion expressed in the Exposure Draft to prohibit a depreciation or amortization method that uses revenue generated from an activity that includes the use of an asset. A depreciation method should reflect the pattern of consumption of the future economic benefits embodied in an asset, rather than a pattern of the future economic benefits generated from the asset.

We believe that this clarification is consistent with the current wording of IFRSs and it is also aligned with the Conceptual Framework which states (par. 4.51) that:

"*When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined, expenses are recognised in the income statement on the basis of systematic and rational allocation procedures. This is often necessary in recognising the expenses associated with the using up of assets such as property, plant, equipment, goodwill, patents and trademarks; in such cases the expense is referred to as depreciation or amortisation. These allocation procedures are intended to recognise expenses in the accounting periods in*

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which the economic benefits associated with these items are ***consumed*** *or expire*." [Emphasis added]

Furthermore, the performance of an entity is measured as its income less its expenses. If revenue-based depreciation were to be used, it would result in 'earnings smoothing' or having a constant profitability which does not properly depict the entity's profit. In extreme cases, where an entity uses an asset but generates no revenue, a revenue-based method will result in zero depreciation.

Although we agree with the general notion of the Exposure draft as stated above, we believe that paragraphs BC3-BC5 somewhat confuse between the pattern of consumption of an asset and a decline in its value. Depreciation is defined in IAS 16 as "*the systematic allocation of the depreciable amount of an asset over its useful life*" (Amortisation is defined the same way with regard to intangible assets in IAS 38). Hence, depreciation does not necessarily reflect a decline in the value of an asset, but rather a systematic allocation of its cost. Therefore, we doubt whether the explanation given in paragraphs BC4-BC5 is appropriate.

Moreover, if the IASB believes that there might be circumstances, in which revenue could be used as a proxy to the pattern of consumption, as stated in BC3 of the Exposure Draft, this acknowledgement should be part of the standard itself and not merely stated as a basis for conclusions.

Sincerely yours,

A. Inbar

Adir Inbar
Chair of the Professional Council

Arnon Ratzkovsky
Chair of the Financial Reporting Standards Committee