



November 30, 2011

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

Dear Board Members:

Consejo Mexicano de Normas de Información Financiera (CINIF), the accounting standard setting body in Mexico, welcomes the opportunity to submit its comments on the Request for Views on the *Agenda Consultation 2011* (the AC), issued in July 2011. Set forth below you will find our comments on the AC, as well as our responses to the specific questions included therein.

Our comments have been developed through the use of three different activities, the first being internal and the second and third representing local outreach activities:

1. Various meetings of the Board members of CINIF. The results of those meetings are included in this letter, along with Exhibit A.
2. Presentations to various groups of interested parties in Mexico. The focus of those meetings and the specific results are presented in Exhibit B.
3. A questionnaire posted on the website of CINIF. The results of the questionnaire are presented in Exhibit C.

Some of the responses resulting from the different activities mentioned above are not consistent, which is understandable. However, we believe there is sufficient consistency to validate CINIF's recommendations and responses included in the text of this letter.

We have divided our letter in two sections. In the first section you will find our general comments on the AC. The second section includes our responses to the specific questions raised in the AC.

General comments on the AC

We support the initiative of the IASB to openly solicit input from all those interested in and affected by financial reporting. We totally agree that understanding our priorities and needs will greatly help the IASB invest its time and resources where they are most needed.

We would like to address a few general issues, including: the Conceptual Framework; the IFRS for SMEs; certain strategic areas; other comprehensive income; and re-exposure of proposed standards.

Conceptual Framework

We strongly agree with the first strategic area identified in the main category of *Developing financial reporting*. That particular strategic area includes strengthening the consistency of IFRS by completing the update of the Conceptual Framework (CF). In that regard, we observe the second paragraph of the "Purpose and status" of the CF of IFRS establishes that "The CF is not an IFRS and hence does not define standards for any particular measurement or disclosure issue. Nothing in this CF overrides any specific IFRS." However, in IFRS there are numerous references that demonstrate the relevance that the CF has for the IASB, as established in paragraphs 10 and 11 of IAS 8, *Accounting Policies, Changes in Accounting and Errors*, which establish that in the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an appropriate accounting policy. In making such judgments, management shall use resources such as definitions, recognition criteria and measurement concepts for assets, liabilities, revenues and expenses that are established in the CF of IASB.

Additionally, paragraph BC24 of the basis for conclusions of IAS 1, *Presentation of Financial Statements*, establishes something similar, since it mentions that for financial statements to fairly present financial position, financial performance and cash flows of an entity, they must represent faithfully the effects of transactions and other events in accordance with the definitions and recognition criteria for assets, liabilities, revenues and expenses set out in the CF of IFRS. Compliance with the CF of IFRS results in a fair presentation in accordance with IFRS.

In practice we observe that there are individual standards of IFRS that establish accounting criteria that do not comply with the CF of IFRS. Additionally, we have observed interpretations of particular standards that also go against the CF of IFRS. This is confirmed in paragraphs 19 and 23 of IAS 1, which establish the requirements to meet in the extremely rare circumstances in which management of the entity concludes that compliance with a requirement in an IFRS would be so misleading that it would conflict with the objective of financial statements set out in the CF of IFRS.

The purpose of the CF of IFRS, among others, is to assist preparers of financial statements with the application of IFRS and address topics that have not yet been the subject of a specific IFRS. The CF of IFRS does not deal with specific measurement and disclosure issues. The IASB recognizes that, in a limited number of cases, there could be a conflict between the CF of IFRS and some particular IFRS or interpretation. CINIF believes it is inappropriate that any particular standard or interpretation thereof violates the CF, a situation allowed by IFRS. Such a situation would be similar to the violation of the constitution by a particular statute or law.

Additionally, the use of the CF as the basis for the development of individual standards that do not violate such CF promotes a principles-based approach and minimizes the use of rules in individual standards. Therefore, we strongly recommend that the CF of IFRS be established as the highest level of hierarchy in IFRS. Consequently, the management

exception contemplated in IAS 1 can and should be eliminated as it would no longer be necessary.

The first strategic area also suggests that the consistency of IFRS might be strengthened by the development of a presentation and disclosure framework. We strongly agree with this effort. It should be noted that the CF of Mexican Financial Reporting Standards (MFRS) includes a separate standard on *Presentation and Disclosure*, NIF A-7, issued in October 2005. This guidance in MFRS serves as the basis for the development of all presentation and disclosure requirements in the individual standards of MFRS to ensure that the disclosure requirements in individual standards of MFRS focus on the right disclosures. This standard of MFRS has proven to be very useful.

Although we do not agree with the development of a separate IFRS on disclosure to replace the disclosures in the existing standards, as we believe such a standard could not possibly contemplate all the specific disclosure needs and peculiarities generated by individual IFRS, we do agree with the need for additional guidance on disclosure in the CF. Further, the discussion of specific disclosure needs must be directly linked to the individual financial reporting requirements, which is most effectively accomplished directly in the individual IFRS.

IFRS for SMEs

While CINIF appreciates and understands the reasons for issuing a separate IFRS for SMEs, CINIF strongly supports the same recognition and measurement by all issuers of financial information regardless of their size or whether they are private or public entities. Taking into consideration that the simplification and/or elimination of selected presentation and disclosure requirements is already in place for non-public entities under MFRS, we believe that a separate IFRS for SMEs is not necessary.

In our opinion, the IFRS for SMEs: a) does not reduce complexity; b) may cause confusion; c) may complicate education and training; d) will impede an adequate comparison of similar entities applying different reporting standards; e) is in conflict with the conceptual framework of full IFRS and even some individual IFRS; and f) does not create a friendly path for future transition to full IFRS.

Strategic areas

We recommend that strategic area 2 of the *Developing financial reporting* category related to investing in research be expanded to include a thorough evaluation of the impact of proposed new or revised standards before they are issued via pre-implementation reviews. We believe that an analysis of the potential economic and/or financial impact of all proposals is essential for all parties interested in financial reporting.

As explained below, we would add another strategic area to the *Maintaining existing IFRSs* category, and that area is *Simplification*. We believe that the often-expressed goal of simplifying IFRS must be considered a key strategic area for the IASB.

Other comprehensive income

As mentioned in our response to Question 2(b) below, we believe it is particularly critical that the project related to other comprehensive income (OCI) be reactivated and made a high priority. We have observed that some recently issued standards and proposed standards

contemplate the recognition of certain adjustments of assets and liabilities through OCI without any requirement to recycle those effects through earnings in the future. We believe that all components of OCI should ultimately be recycled through earnings. To not require recycling may result in certain adjustments of assets and liabilities never impacting earnings per share, which we believe is unacceptable.

Re-exposure of proposed standards

Recently we have observed significant changes made to some proposed standards as a result of the exposure process. In most of these cases, the IASB has appropriately re-exposed the proposed standards to allow for analysis and comment on the proposed changes from the original exposure draft, as is the case with revenue recognition and leases. However, in the case of the IFRS for SMEs, for example, re-exposure was not done, despite some significant changes in the proposed standard. We recommend that unless the changes are in form only, re-exposure always be made.

Our responses to the specific questions raised in the AC

Question 1

What do you think should be the IASB's strategic priorities, and how should it balance them over the next three years?

We believe the IASB's highest strategic priority should be to update, refine and revise the Conceptual Framework (CF) and establish it as the highest level of hierarchy in IFRS. Our reasons are presented above in our general comments on the AC. We believe that the strengthening of the consistency and operational effectiveness of IFRS must begin with a stronger CF, including the development of a presentation and disclosure framework. We believe the enhancement of the CF should be accelerated such that all eight phases are completed by the end of 2012. This was also selected as the highest priority by those completing the questionnaires we distributed.

In our opinion, the second highest priority should be an active program of timely post-implementation reviews. We would like to emphasize *timely*, since we believe that the controversial and contentious issues included in some recently issued standards, such as IFRS 3 on *Business Combinations*, warrant a close look no later than two years after the effective date of the standard. This was selected as the second or third highest priority by the local outreach activities we undertook.

You have already established a work plan for the most urgent post-implementation reviews, to which we strongly encourage strict adherence.

Finally, we believe that the often-expressed goal of revising and simplifying IFRS must be considered another key strategic area for the IASB, but that efforts to achieve that goal have not yet been initiated.

Question 1(a)

Do you agree with the two categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?

We agree with the two categories identified and the five strategic areas within them.

The results of our local outreach activities confirmed agreement with the categories and strategic areas.

Question 1(b)

How would you balance the two categories and five strategic areas? If you have identified other areas for the IASB's agenda, please include these in your answer.

Our recommendation for balancing the two categories and six strategic areas (see our response to Question 1(a)) is based on the strategic priorities we identified in our response to Question 1 above.

As mentioned in our response to Question 1, we would add another strategic area to the *Maintaining existing IFRSs* category, and that area is *Simplification*. We believe that revising and simplifying IFRS is essential for the expanding global acceptance of IFRS.

Since we have identified a high priority activity in each category, we believe that both categories require equal and simultaneous attention. Our suggested relative importance of the six strategic areas is as follows:

Category 1: Developing financial reporting

Strategic area 1: Strengthening the consistency of IFRS – We believe this area merits the highest attention and dedication of resources. An enhanced and strengthened Conceptual Framework is essential for the overall improvement and growing global acceptance of IFRS. As mentioned above, our local outreach activities confirmed this priority.

Strategic area 2: Investing in research – While investing time and effort in research activities is important, its impact is long-term and less urgent. We strongly recommend that this strategic area be expanded to include pre-implementation reviews that include a thorough evaluation of the impact of proposed new or revised standards before they are issued. We believe that an analysis of the potential economic and/or financial impact of all proposals is essential for all parties interested in financial reporting.

Strategic area 3: Filling gaps in IFRS literature – Clearly these activities must and will continue, and we have indicated our list of priorities in our responses to Questions 2, 2(a) and 2(b).

Category 2: Maintaining existing IFRSs

Strategic area 4: Understanding operational issues – We consider this area critical to the effectiveness and responsiveness of all new standards and strongly encourage the acceleration and expansion of pre and post-implementation reviews. Our local outreach activities confirmed the priority of this strategic area.

Strategic area 5: Consistency and quality of application – We strongly support the annual improvement process for the timely enhancement of existing IFRSs. We consider this to be a high priority and believe that it is a natural part of the standard setting process that will automatically receive the attention it deserves.

Strategic area 6: Simplification – We consider the simplification of existing standards to be an important and essential step toward ensuring the consistency and quality of the application of IFRS. This strategic area was almost unanimously the highest priority among Mexican issuers that will be applying IFRS beginning in 2012. This process should include simplifying the wording and phrasing of many standards, potentially reordering some standards, with the ultimate goal of codifying all IFRS in a logical and organized manner as has been done with US GAAP. Such a codification would:

- Reduce the amount of time and effort required to solve an accounting research issue;
- Mitigate the risk of noncompliance with standards through improved usability of IFRS literature by including all authoritative literature on a topic in one place;
- Provide accurate information with real-time updates as new standards are released;
- Assist the IASB with its research and convergence efforts required during the standard-setting process;
- Become the authoritative source of literature for XBRL;
- Make it clear that guidance not contained in the codification is not considered to be authoritative.

Question 2

What do you see as the most pressing financial reporting needs for standard-setting action from the IASB?

In addition to our belief that revision of the Conceptual Framework is urgently needed, we believe that the projects on financial instruments, revenues, leases and insurance contracts must be completed as soon as possible. The uncertainties created by some of the more controversial proposals must be addressed on a timely basis. We completely support the decision to re-expose revenues, leases and insurance contracts due to the significance of the anticipated changes in some of the proposals. Our local outreach activities confirmed these pressing financial reporting needs.

Question 2(a)

Considering the various constraints, to which projects should the IASB give priority, and why? Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow, targeted improvement would suffice?

A highly sensitive and controversial area is the accounting for financial liabilities. The guidance for financial liabilities was transferred from IAS 39 to IFRS 9 without modification, and we believe that a reevaluation of certain aspects of accounting for financial liabilities, specifically the fair value option, should be considered.

We also believe the amendments to IAS 37 are urgently needed, particularly as they relate to assumed and deferred liabilities. In this regard, we believe that the decision of the IFRSIC agenda committee to not allow deferred statutory employee profit sharing determined based on taxable income should be revisited.

Our assessment of the priority and overall scope of all projects is indicated in Exhibit A.

Our local outreach activities evidenced a wide variety of opinions on which projects should be reactivated or activated. The only two projects included in the top five of both outreach activities were inflation accounting and the standardization of presentation and disclosure requirements, which are both recommended as comprehensive high priority projects in Exhibit A.

Question 2(b)

Adding new projects to the IASB's agenda will require the balancing of agenda priorities with the resources available. Which of the projects previously added to the IASB's agenda but deferred (see table page 14) would you remove from the agenda in order to make room for new projects, and why? Which of the projects previously added to the IASB's agenda but deferred do you think should be reactivated, and why? Please link your answer to your answer to question 2(a).

Please see Exhibit A attached to this letter. We offer the following explanations:

Projects to be removed	Explanation
Country-by-country reporting	Country-by-country reporting by multinational entities would appear neither necessary nor beneficial.
Financial statement presentation (w/o OCI)	Focus in the statements of financial position and comprehensive income currently is and should continue to be on the business model and not on the type of activities as in the statement of cash flows ("cohesiveness").
Islamic (Shariah-compliant) transactions and instruments	Religious, social or other cultural beliefs should not impact financial reporting. Some (in Islamic countries) already argue that such beliefs are not inherently in conflict with IFRS, and the applicability would be extremely limited.

Neither of these projects was recommended for activation by many participants in our local outreach activities.

Projects to be reactivated	Explanation
Agriculture, particularly bearer biological assets	There should be different accounting for the productive assets (tree and cow) and the saleable products (fruit and milk).
Discount rate	We believe there should be consistent

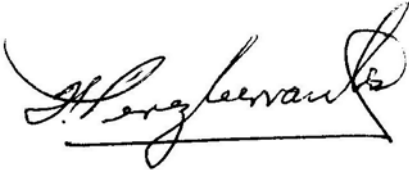
	guidance on the determination of the discount rate to be used. Additionally, we do not believe reference to a pre-tax rate is appropriate.
Earnings per share & other comprehensive income	We believe these two projects should be combined and include the reconsideration of the nature, appropriateness and recycling of OCI. Additionally, the inclusion of OCI in EPS should be reevaluated.
Equity method of accounting	Require use of the equity method in separate financial statements. We believe that the net earnings and equity in the separate financial statements cannot differ from the controlling interest net earnings and equity in the corresponding consolidated financial statements.
Extractive activities	Significant diversity in practice.
Financial instruments with characteristics of equity	Needed to complete the financial instruments project and avoid that some liabilities be presented as equity.
Foreign currency translation	Presentation of prior year financial statements for comparative purposes when the economic environment of the parent company is inflationary. Additionally, reconsideration of the preliminary decision by the lease project group not to allow adjustment of the right-to-use asset for foreign-currency denominated lease obligations.
Income taxes	Need to complete the convergence project with the FASB.
Inflation accounting (revisions to IAS 29)	Reconsideration of hyperinflationary, vs. inflationary, as the criteria for recognition of the comprehensive effects of inflation, since we believe financial ratios and trends begin to be distorted far below hyperinflation.
Liabilities – amendments to IAS 37	Need to reevaluate and clarify the concept of assumed and deferred liabilities. We believe reconsideration of the decision of the IFRSIC agenda committee not to allow recognition of deferred employee profit sharing determined based on taxable income is needed.
Post-employment benefits	We believe that certain clarifications regarding what represents termination benefits and when plan assets are to be offset against the pension liability are

	required.
Presentation and disclosure standard	Need for conceptual guidance on presentation and disclosure.

All of the high priority projects identified in our local outreach activities are included in the list above.

Should you require additional information on our comments listed above, please contact William Biese at (52) 55 5596 5633 ext. 113 or me at ext. 103 or by e-mail at wbiese@cinif.org.mx or fperezcervantes@cinif.org.mx, respectively.

Sincerely,



C.P.C. Felipe Perez Cervantes
President of the Mexican Financial Reporting Standards Board
Consejo Mexicano de Normas de Información Financiera (CINIF)

Attachments: Exhibits A, B and C

Exhibit A

Projects previously added to the agenda but deferred and new project suggestions

<i>Project</i>	<i>Priority</i>	<i>Scope</i>	<i>Remove?</i>	<i>Reactivate?</i>
Agriculture, particularly bearer biological assets	H	C	N	Y
Business combinations between entities under common	L	T	D	N
Country-by-country reporting	L	T	Y	N
Discount rate	H	T	N	Y
Earnings per share	H	C	N	Y
Emissions trading schemes	L	T	D	N
Equity method of accounting	H	T	N	Y
Extractive activities	L	C	N	Y
Financial instruments with characteristics of equity	H	C	N	Y
Financial statement presentation (w/o OCI)	L	T	Y	N
Foreign currency translation	H	C	N	Y
Government grants	L	T	D	N
Income taxes	H	C	N	Y
Inflation accounting (revisions to IAS 29)	H	C	N	Y
Intangible assets	L	T	D	N
Interim reporting	L	T	D	N
Islamic (Shariah-compliant) transactions and instruments	L	T	Y	N
Liabilities – amendments to IAS 37	H	C	N	Y
Other comprehensive income	H	C	N	Y
Post-employment benefits (including pensions)	H	T	N	Y
Presentation and disclosure standard	H	C	N	Y
Rate-regulated activities	L	C	D	N
Share-based payment	L	C	D	N

Legend:

H = High
L = Low

C = Comprehensive
T = Targeted

Y = Yes
N = No
D = Continue deferral

Exhibit B

The purpose of this exhibit is to summarize the results of the focus meetings we held with various groups in Mexico regarding the **Agenda Consultation 2011** distributed by the IASB in July 2011. In addition to making the electronic questionnaire available on our website and also distributing it at all of our meetings, we met with the following interested parties to request their input:

- The Issuers' Committee of the Mexican Stock Exchange
- The Mexican Financial Executives Institute
- The Mexican Banking Association
- The Mexican Insurance Institution Association
- The Mexican Institute of Public Accountants

In total, approximately 200 people attended our sessions, in which we presented the following:

- The letter from Hans Hoogervorst, Chairman of the IASB
- The background and objective of the consultation
- The tentative view of the IASB regarding the strategic direction and balance of its agenda
- The IASB's existing priorities and commitments
- Projects previously added to the agenda but deferred and new project suggestions
- The IASB's timetable

The first area on which we requested input from the groups was with respect to the five strategic priorities identified by the IASB. Those strategic priorities are divided into two categories: (1) developing financial reporting and (2) maintaining existing IFRS. We asked each group if they agreed with the strategic priorities and which they thought should have the highest priority. We also mentioned that CINIF has identified an additional strategic priority for the second category, which is simplification, and asked them to consider that as well.

The results were as follows:

Priority Ranking	Strategic priority	Percent
1	Simplification (including codification)	67%
2	Understanding operational issues	42%
3	Filling gaps in IFRS literature	34%

The second area on which we requested input was with respect to the deferred projects for which significant work has already been performed. We specifically asked which of the projects should be reactivated, with the following results:

Priority Ranking	Project	Percent
1	Liabilities – amendments to IAS 37	26%
2	Income taxes	17%
3	Financial instruments with characteristics of equity	15%

The third area on which we requested input was with respect to the deferred projects for which little or no work has been performed. We specifically asked which of those projects should be reactivated, with the following results:

Priority Ranking	Project	Percent
1	Other comprehensive income	49%
2	Post-employment benefits	15%
3	Business combinations between entities under common control	11%

The fourth and final area on which we requested input was with respect to suggested projects. We specifically asked which of those projects should be undertaken, with the following results:

Priority Ranking	Project	Percent
1	Presentation and disclosure standard	62%
2	Discount rate	45%
3	Inflation accounting	36%

We did not address input on the specific existing standards of IFRS that the participants would like to see revised. We encouraged everyone to complete the questionnaire on our website to obtain that information.

Exhibit C

The purpose of this exhibit is to summarize the results of the questionnaire posted to our website. Unfortunately, we did not receive the volume of response we had hoped for. Nevertheless, the results are valuable and have been considered in our overall recommendations.

The questionnaire specifically asked which existing standards of IFRS could or should, in the opinion of the respondent, be improved. Those standards most frequently identified as requiring improvement were as follows:

Ranking	Standard	Percent of Respondents
1	Conceptual Framework	41%
2	IAS 39 – Financial Instruments: Recognition and Measurement	38%
3	IFRS 7 – Financial Instruments: Disclosures	36%
4	IFRS 9 – Financial Instruments	33%
5	IFRS 1 – First-time Adoption of IFRS	28%
5	IFRS 10 – Consolidated Financial Statements	28%
5	IAS 17 - Leases	28%
5	IAS 32 – Financial Instruments: Presentation	28%
5	IAS 38 – Intangible Assets	28%
6	IAS 1 – Presentation of Financial Statements	26%
6	IAS 21 – The Effects of Changes in Foreign Exchange Rates	26%
6	IAS 29 – Financial Reporting in Hyperinflationary Economies	26%

The next section of the questionnaire asked which of the projects included in Appendix C to the AC should be reactivated or activated (Question 2(b) of the AC). We specifically asked the respondents to indicate for each project: (1) Should be activated (important and urgent); (2) Could be activated (important but not urgent); (3) Not interested; or (4) Should not be activated (poor use of resources). Points were assigned based on the responses as follows: (1) = 2 points; (2) = 1 point; (3) = no points; and (4) = minus 1 point. The top five projects were as follows:

Ranking	Project
1	Equity method of accounting
2	Financial statement presentation (excluding consideration of OCI)
3	Inflation accounting (revisions to IAS 29)
4	Presentation and disclosure standard
5	Income taxes

The next section of the questionnaire asked if the respondents agreed with the two categories and five strategic areas (Question 1(a) of the AC). 100% of the respondents agreed with the two categories, and 90% or more agreed with all five strategic areas.

The last section of the questionnaire asked how to balance the five strategic areas (Question 1(b) of the AC). The results were as follows:

Ranking	Strategic area
1	Strengthening the consistency of IFRS
2	Filling gaps in IFRS literature
3	Understanding operational issues
4	Consistency and quality of application
5	Investing in research