



September 29, 2010

Financial Accounting Standards Board
401 Merrit 7
Norwalk, Connecticut 06856-5116

Dear Board Members:

Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF), the accounting standard setting body in Mexico, welcomes the opportunity to submit its comments on the Proposed Accounting Standards Update (ASU), *Accounting for Financial Instruments and Revisions to the Accounting for Derivatives and Hedging Activities*, issued for comments on May 26, 2010 by the Financial Accounting Standards Board. Set forth below you will find our comments to the topics included in the ASU.

Our viewpoint

We agree with many of the proposals and disagree with others. We believe that the allowance for loan losses should be provided based on expected losses and not until a threshold of a loss is evident. However, we believe that the provision should be matched with the related revenues and not as the loans are granted.

We do not agree that all financial instruments should be stated at fair value in the financial statements when the strategy of the business is not to sell the assets or pay the liabilities at their fair value. We believe that such information would not reflect how the business is operated. The fair values would be cumbersome to determine and in many cases too much judgment will be required.

Also, we have concerns that certain entities may value their liabilities at fair value, when such entities are in financial distress. This would artificially reduce the carrying value of liabilities and increase equity for amounts that would only be realized in exceptional cases, such as those in which a raider takes over the business to realize a gain on selling valuable assets through buying the debt at a high discount.

When responding to the questions related to hedge accounting, we assumed that hedge accounting would be based on the fair values of the financial assets and liabilities. Accordingly, all hedged items are measured at fair value.

We responded to all questions (including those for auditors, user, etc.) based on the input of a standing committee of CINIF comprised of auditors, bankers, independent advisors and other interested parties.

Set forth below you will find our responses to the questions included in the proposed ASU:

Scope

Questions for All Respondents

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments do you believe should be excluded or which financial instruments should be included that are proposed to be excluded? Why?

Yes, we agree with the scope of financial instruments included in the proposed ASU. However, we have some doubts as to whether a loan commitment should be considered as a financial instrument and, if so, whether it should be measured at fair value in the financial statements.

Question 2: The proposed guidance would require loan commitments, other than loan commitments related to a revolving line of credit issued under a credit card arrangement, to be measured at fair value. Do you agree that loan commitments related to a revolving line of credit issued under a credit card arrangement should be excluded from the scope of this proposed Update? If not, why?

We believe that irrevocable loan commitments should be measured at fair value when there is an impairment loss derived from a significant deterioration in the financial situation of a customer that results in the entity not expecting to recover the full amount of the loan commitment. Accordingly, this results in providing for an expected loss. This only applies to irrevocable loan commitments, which excludes revolving lines of credit issued under a credit card arrangement, where the entity can suspend credit privileges when it deems convenient based on its lending policies.

Question 3: The proposed guidance would require deposit-type and investment contracts of insurance and other entities to be measured at fair value. Do you agree that deposit-type and investment contracts should be included in the scope? If not, why?

Yes, we believe that deposit-type and investment contracts of insurance and other entities should be measured at fair value as long as they are related to liabilities that should be measured at fair value, such as insurance liabilities, or when the performance of the entity is evaluated based on the performance of its investment portfolio. Therefore, these deposit-type and investment contracts should be included in the scope.

Question 4: The proposed guidance would require an entity to not only determine if they have significant influence over the investee as described currently in Topic 323 on accounting for equity method investments and joint ventures but also to determine if the operations of the investee are related to the entity's consolidated business to qualify for the equity method of accounting. Do you agree with this proposed change to the criteria for equity method of accounting? If not, why?

No, we do not agree with the proposed change. When an entity has an investment that allows it to exercise significant influence over the investee, it is because there is a business reason to have such investment, even if in certain cases the operations of the investee are not considered related to the entity's consolidated business based on the factors included in paragraph 130 of the proposed ASU, which could be interpreted to attain a specific result. We believe that when an entity has significant influence over an

investee, the equity method should be used, regardless of whether the operations of the investee are related to the entity's consolidated business.

Questions for Users

Question 5: The proposed guidance would require financial liabilities of investment companies to be measured at fair value with changes in fair value recognized as a net increase (decrease) in net assets. Do you believe that the effect on net asset value will provide decision-useful information? If yes, how will the information provided influence your analysis of the entity? If not, why?

We have discussed this matter with several users, and there is no consensus as to whether the financial liabilities of investment companies should be measured at fair value. The proposal makes sense as long as the performance of an investment company is measured at fair value, and the investors purchase or sell shares of such investment companies. However, the investment company should always have the ability to liquidate the liabilities at fair value to make the assumption workable. Otherwise, it would be a theoretical assumption that should not be recognized.

Question 6: The proposed guidance would require money market funds that comply with Rule 2a-7 of the Investment Company Act of 1940 to measure their investments at fair value rather than amortized cost. Do you believe that reporting those investments at fair value rather than amortized cost will provide decision-useful information? If yes, how will the information provided influence your analysis of the fund? If not, why?

We do not know what kind of money market funds have to comply with Rule 2a-7 of the Investment Company Act of 1940. Mexican banks have money market funds that support the yield paid to depositors, and those funds are measured at fair value, rather than at amortized cost, to determine the yield payable to depositors. The yield on deposits is based on the yield obtained on a money market fund that is measured at fair value.

Question 7: The proposed guidance would require brokers and dealers in securities to apply the proposed guidance for measuring financial liabilities, which could mean that qualifying changes in fair value would be recognized in other comprehensive income. Do you believe that this will provide decision-useful information? If yes, how will the information provided influence your analysis of the entity? If not, why?

If brokers and dealers issue financial liabilities, such as bonds, in the market that are in fact traded with a strategy to benefit from market value changes, we believe this represents an operating activity that would require changes in the fair value of the liabilities to be included in operating income. If the entity is not engaged in trading its own debt but rather intends to hold it to maturity, we believe that measuring such liability at fair value is inappropriate, and the debt should be measured at amortized cost.

Initial Measurement

Questions for All Respondents

Question 8: Do you agree with the initial measurement principles for financial instruments? If not, why?

No, we do not agree. We believe that the initial measurement principle should be to measure at fair value all financial instruments that will be subsequently measured at fair value, and at acquisition cost ("transaction price") all financial instruments that will be subsequently measured at amortized cost. As we indicated above, we believe that if the entity's strategy is to obtain a return on the effective interest of the financial instrument and collect the principal amount when the financial instrument is due, such financial instrument should not be measured at fair value, since the financial statements would present a hypothetical carrying value that would not represent the amount to be realized.

Question 9: For financial instruments for which qualifying changes in fair value are recognized in other comprehensive income, do you agree that a significant difference between the transaction price and the fair value on the transaction date should be recognized in net income if the significant difference relates to something other than fees or costs or because the market in which the transaction occurs is different from the market in which the reporting entity would transact? If not, why?

Yes, we believe that generally the transaction price will differ from fair value, measured as an exit price, on the transaction date for all financial instruments that are acquired by paying a fee or other costs. That should not result in adjusting the price to fair value if the entity's strategy is to recover those fees and additional costs over the term of the financial instruments. If there is a significant difference because the market in which the transaction occurs is different from the market in which the reporting entity would transact, then the entity is involved in an arbitrage transaction, and the financial instrument should be measured at the price in the market where it will be sold. In this case, transaction fees and costs, as well as any significant difference between the transaction price and the fair value on the transaction date, should be included in net income.

Question 10: Do you believe that there should be a single initial measurement principle regardless of whether changes in fair value of a financial instrument are recognized in net income or other comprehensive income? If yes, should that principle require initial measurement at the transaction price or fair value? Why?

No, we believe that the initial measurement principle should be based on whether the subsequent changes in the value of the financial instruments will be based on its amortized cost, in which case transaction cost should be used, or will be based on its fair value, as with financial instruments for trading, in which case fair value should be used.

Question 11: Do you agree that transaction fees and costs should be (1) expensed immediately for financial instruments measured at fair value with all changes in fair value recognized in net income and (2) deferred and amortized as an adjustment of the yield for financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income? If not, why?

No. Although we agree that transaction fees and costs should be expensed immediately for financial instruments held for trading, which should be initially measured at fair value, with subsequent changes in fair value recognized in net income, we believe that transaction fees and costs should be deferred and amortized as an adjustment of the yield for financial instruments to be measured at amortized cost. As previously indicated, we believe that financial instruments recognized at amortized cost should not be subsequently measured at fair value, since the strategy of the business is not to obtain a profit based on market value changes, but rather on the effective interest yield of the instrument.

Question for Preparers and Auditors

Question 12: For financial instruments initially measured at the transaction price, do you believe that the proposed guidance is operational to determine whether there is a significant difference between the transaction price and fair value? If not, why?

Yes, we agree that the proposed guidance is operational. Ultimately, however, judgment must be used to determine whether there is a significant difference between the transaction price and fair value. This will be a challenge for both preparers and auditors. In certain cases, such as in the examples in IG9, it will be evident that a significant difference between the transaction price and fair value exists. However, if there are no observable inputs, most preparers will use the transaction price to initially measure the financial instrument. The guidance included in paragraphs 14 to 17 and IG7 to IG12 and the

examples in IG13 to IG19 are very helpful to make a sound judgment and should be the basis for a preparer to make its judgment and for the auditor to evaluate such judgment.

Subsequent Measurement

Questions for All Respondents

Question 13: The Board believes that both fair value information and amortized cost information should be provided for financial instruments an entity intends to hold for collection or payment(s) of contractual cash flows. Most Board members believe that this information should be provided in the totals on the face of the financial statements with changes in fair value recognized in reported stockholders' equity as a net increase (decrease) in net assets. Some Board members believe fair value should be presented parenthetically in the statement of financial position. The basis for conclusions and the alternative views describe the reasons for those views. Do you believe the default measurement attribute for financial instruments should be fair value? If not, why? Do you believe that certain financial instruments should be measured using a different measurement attribute? If so, why?

No, we do not believe the default measurement attribute for financial instruments should be fair value if the strategy of the business is to obtain a profit based on the effective yield on loans to customers and the related cost of funding those loans. In such cases, amortized cost gives a better image of the business, not only in the statement of comprehensive income, where a financial margin is shown, but also in the statement of financial position, since the amounts shown therein will be based on the entity's strategy to operate the business. In such circumstances, the fair value would be hypothetical on the assumption that there is a change in strategy, which would be very unusual. The financial instruments that should be measured at fair value are those held for trading if the entity's strategy is to make a profit from trading activities. The financial statements should show how the business is operated following its current strategy, not what could happen if the business is conducted in a different manner.

Question 14: The proposed guidance would require that interest income or expense, credit impairments and reversals (for financial assets), and realized gains and losses be recognized in net income for financial instruments that meet the criteria for qualifying changes in fair value to be recognized in other comprehensive income. Do you believe that any other fair value changes should be recognized in net income for these financial instruments? If yes, which changes in fair value should be separately recognized in net income? Why?

We believe that for those financial instruments for which the strategy of the business is to obtain a yield based on the effective interest rate, the only elements to be included in income should be interest income and expense, credit impairments and reversals (for financial assets) and the realized gain or loss upon sale or securitization. No fair value changes should be recognized in net income (except upon sale or securitization). As we previously indicated, when an entity manages its financial instruments to obtain a yield on the effective interest, fair value should be disclosed but not recognized.

Question 15: Do you believe that the subsequent measurement principles should be the same for financial assets and financial liabilities? If not, why?

Yes, we believe that the subsequent measurement principles should be the same for financial assets and financial liabilities, based on the strategy of the entity to operate the business. Therefore, if the strategy is to obtain a yield from effective interest rate, the financial instruments should be subsequently measured at their amortized cost, and if the strategy is to obtain a profit from trading, the financial instruments should be measured at fair value.

Question 16: The proposed guidance would require an entity to decide whether to measure a financial instrument at fair value with all changes in fair value recognized in net income, at fair value with qualifying changes in fair value recognized in other comprehensive income, or at amortized cost (for certain financial liabilities) at initial recognition. The proposed guidance would prohibit an entity from subsequently changing that decision. Do you agree that reclassifications should be prohibited? If not, in which circumstances do you believe that reclassifications should be permitted or required? Why?

Yes, we believe that once the initial measurement is made, based on the entity's strategy to manage the financial instruments, reclassifications between instruments measured at amortized cost and fair value should be prohibited. This is because the entity's strategy should be established at the time of initial measurement, which should determine the classification of the financial instrument.

Question 17: The proposed guidance would require an entity to measure its core deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-in-cost-to-service rate over the implied maturity of the deposits. Do you believe that this remeasurement approach is appropriate? If not, why? Do you believe that the remeasurement amount should be disclosed in the notes to the financial statements rather than presented on the face of the financial statements? Why or why not?

No, we do not believe that core deposit liabilities should be measured at fair value, since what the entity is reimbursing to its customers are the nominal amounts received, plus interest, if any. The proposed guidance to discount the core deposits at the difference between the alternative funds rate and the all-in-cost-to-service rate is not an appropriate remeasurement principle since it would be hypothetical assuming the entity did not have the deposits from customers and obtained another source of funding. Therefore, it would be an unrealistic value that would not provide reliable information. We believe that even as a disclosure in the notes to financial statements such information may be unreliable, and accordingly we question the usefulness of such information.

Question 18: Do you agree that a financial liability should be permitted to be measured at amortized cost if it meets the criteria for recognizing qualifying changes in fair value in other comprehensive income and if measuring the liability at fair value would create or exacerbate a measurement attribute mismatch? If not, why?

We believe that a financial liability should be measured at amortized cost in all those cases in which the entity's strategy is to pay the interest and, when due, the principal of the liability, which is the strategy of the vast majority of businesses, except for a few uncommon cases in which the strategy of the business is to trade on its liabilities. Therefore, amortized cost should be the default measurement for all financial liabilities.

Question 19: Do you believe that the correct financial instruments are captured by the criteria in the proposed guidance to qualify for measurement at the redemption amount for certain investments that can be redeemed only for a specified amount (such as an investment in the stock of the Federal Home Loan Bank or an investment in the Federal Reserve Bank)? If not, are there any financial instruments that should qualify but do not meet the criteria? Why?

We are not familiar with investments in stock that can be redeemed only for a specified amount and, therefore, we cannot give you a feedback on this issue. Mexican banks do not hold stock of the Central Bank, only regulatory deposits that are valued at their face amount, plus accrued interest.

Question 20: Do you agree that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with qualifying changes in fair value recognized in other comprehensive income in combination with other deferred tax assets of the entity (rather than segregated and analyzed separately)? If not, why?

We believe that any deferred tax asset originated by a financial instrument having different book and tax bases should be recognized and the valuation allowance be evaluated in combination with all deferred tax assets, since the recovery of deferred tax assets is dependent on the performance of the entity as a whole. If the deferred tax asset arising from the difference between the tax and book bases can be recovered only from a specific source of revenue, the deferred tax asset should be evaluated separately. However, such a situation does not exist in Mexican tax law.

Question 21: The Proposed Implementation Guidance section of this proposed Update provides an example to illustrate the application of the subsequent measurement guidance to convertible debt (Example 10). The Board currently has a project on its technical agenda on financial instruments with characteristics of equity. That project will determine the classification for convertible debt from the issuer's perspective and whether convertible debt should continue to be classified as a liability in its entirety or whether the Board should require bifurcation into a liability component and an equity component. However, based on existing U.S. GAAP, the Board believes that convertible debt would not meet the criterion for a debt instrument under paragraph 21(a)(1) to qualify for changes in fair value to be recognized in other comprehensive income because the principal will not be returned to the creditor (investor) at maturity or other settlement. Do you agree with the Board's application of the proposed subsequent measurement guidance to convertible debt? If not, why?

We agree that in the case of convertible debt the uncertainty as to whether it will be redeemed or converted into equity does not give the financial instrument the characteristics of a liability for which the principal amount will be paid at maturity. Therefore, neither the issuer nor the holder of the financial instrument should measure the instrument at amortized cost, but rather at fair value with the effects of the changes recognized in net income.

Questions for Users

Question 22: Do you believe that the recognition of qualifying changes in fair value in other comprehensive income (measuring the effects of subsequent changes in interest rates on fair value as well as reflecting differences between management's and the market's expectations about credit impairments) will provide decision-useful information for financial instruments an entity intends to hold for collection or payment(s) of contractual cash flows? If yes, how will the information provided influence your analysis of an entity? If not, why?

No, we do not believe that recognizing the difference between amortized cost and fair value in other comprehensive income will provide decision-useful information for financial instruments an entity intends to hold for collection or payments. The differences will disappear upon maturity, and if the difference is due to market expectations about credit impairment, any ultimate impairment will be recognized in net income. Also, as the entity will be measuring the amounts it expects to recover, a significant credit impairment perceived by the market may have to be recognized even if the amounts expected to be recovered do not decrease. Further, unless the information on fair value is segmented by specific credits, the user will not know what generates such difference. In any case, a disclosure of the difference between amortized cost and fair value, with an explanation of the main components of the difference, should provide adequate decision-useful information in the financial statements.

Question 23: The proposed guidance would establish fair value with all changes in fair value recognized in net income as the default classification and measurement category for financial instruments. An entity can choose to measure any financial instrument within the scope of this proposed Update at fair value with all changes in fair value recognized in net income, except for core deposit liabilities which must be valued using a remeasurement approach. Do you believe that a default classification and measurement category should be provided for financial instruments that would otherwise meet the criteria for qualifying changes to be recognized in other comprehensive income? If not, why?

No. We believe that a default classification and measurement category should be provided for financial instruments for which the entity's strategy is to hold to collect or pay the contractual cash flows. That category should be amortized cost. When entities are evaluating borrowing or lending to finance a project, they evaluate how the contractual cash flows will be paid or collected, not the anticipated fair value of the financing through maturity. Both the lender and the borrower will continue forecasting their contractual cash flows. Therefore, an amortized cost category is more closely related to how businesses manage their cash flows, their results of operation and finally their financial position.

Question 24: The proposed guidance would provide amortized cost and fair value information on the face of the financial statements. The Board believes that this would increase the likelihood that both measures are available to users of public entity financial statements on a timely basis and that both measures are given equal attention by preparers and auditors. Do you believe that this approach will provide decision-useful information? If yes, how will the information provided be used in the analysis of an entity? If not, would you recommend another approach (for example, supplemental fair value financial statements in the notes to the financial statements or dual financial statements)?

No, we do not believe that providing amortized cost and fair value information on the face of the financial statements will provide decision-useful information for the readers of financial information. It may even prove to be confusing, since some readers will not have a clear picture of the financial position of the entity because the fair value information will indicate the valuation if certain events take place out of the ordinary course of business, such as selling assets or pre-paying liabilities. Therefore, we believe that fair value information could be more useful if disclosed separately and on a discretionary basis, to inform the reader about the possible effects of certain events that may occur, such as inviting an investor to buy debt at a significant discount and in exchange for control or significant influence in the entity.

Question 25: For hybrid financial instruments that currently would require bifurcation and separate accounting under Subtopic 815-15, do you agree that recognizing the entire change in fair value in net income results in more decision-useful information than requiring the embedded derivative to be bifurcated and accounted for separately from the host contract? If yes, how will the information provided be used in the analysis of an entity? If not, for which types of hybrid financial instruments do you believe that it is more decision useful to account for the embedded derivative separately from the host contract? Why?

Yes, we believe that recognizing the entire change in the fair value of the host contract in net income is more useful than requiring the embedded derivative to be bifurcated and accounted for separate from the host contract as if the host contract would not be affected by the embedded derivative. The bifurcation creates effects in net income (and in certain cases in other comprehensive income) as well as assets and liabilities that are difficult to understand. The information provided will indicate the total (or net) value of the asset or liability, and therefore the amount of expected cash flows and the statement of income will be better correlated with the generation or use of cash flows and, therefore will be better related to the entity's strategy.

Question 26: IFRS 9 requires hybrid financial assets to be classified in their entirety on the basis of the overall classification approach for financial assets with specific guidance for applying the classification approach to investments in contractually linked instruments that create concentrations of credit risk. Also, for hybrid financial liabilities, the IASB, in order to address the effects of changes in the credit risk of a liability, tentatively has decided to retain existing guidance that requires embedded derivatives to be bifurcated and accounted for separately from a host liability contract if particular conditions are met. Do you believe that the proposed guidance for hybrid financial instruments or the IASB's model for accounting for financial hybrid contracts will provide more decision-useful information? Why?

Yes, we believe that in the case of hybrid financial assets, the specific guidance of IFRS 9 regarding contractually linked instruments that create concentrations of risk is useful, since

it will provide information of how the cash flows of the contractually linked financial instruments is generated, which will be useful to determine the amortized cost, based on the contractual cash flows to be generated. However, regarding hybrid financial liabilities, we believe it is better not to bifurcate the embedded derivative since the cash flows that will be paid will be affected by the embedded derivative, and the liability should show the expected cash flows required to settle the liability.

Question 27: Do you believe that measuring certain short-term receivables and payables at amortized cost (plus or minus any fair value hedging adjustments) will provide decision-useful information? If yes, how will the information provided be used in your analysis of an entity? If not, why?

Yes, we believe that short-term receivables or payables should be measured at amortized cost, which reflects the cash inflows or outflows that are expected to occur in the very near term. This is the case for trade receivables and payables of industrial, commercial or service entities that are not engaged in financing services. For most of these short-term receivables or payables, their carrying value will be their amortized cost and should not differ significantly from their fair value.

Questions for Preparers and Auditors

Question 28: Do you believe that the proposed criteria for recognizing qualifying changes in fair value in other comprehensive income are operational? If not, why?

No, we believe that the proposed criteria indicated in paragraph 24 for recognizing qualifying changes in fair value in other comprehensive income are not operational. This is because the procedure starts by determining the total change in fair value during the reporting period. Determining the total change will be extremely difficult in practice since the composition of a portfolio of loans will be changing during the year as new loans are granted and payments of loans are made throughout the period. If it were a single loan, it would be easy to determine its change in fair value. But when it is a portfolio, it will be necessary to determine the fair value of each loan at the beginning of the period, the change due to payments, and the change of the portion remaining at then of the period. Also, this will have to be applied to new loans for which payments were made during the period. It would be easier to compare the difference between the amortized cost and fair value at the beginning of the period with the difference at the end of the period, to determine the change in fair value to be recognized in other comprehensive income.

Question 29: Do you believe that measuring financial liabilities at fair value is operational? If not, why?

No, we do not believe that measuring financial liabilities at fair value is operational, because if the business strategy of the entity is to pay the contractual cash flows, amortized cost is the amount that will reflect the required cash flows. Except in unusual circumstances, businesses are paying the contractual cash flows. The unusual circumstances relate to troubled debt restructurings, for which guidance already exists.

Question 30: Do you believe that the proposed criteria are operational to qualify for measuring a financial liability at amortized cost? If not, why?

Yes, we believe that the criteria outlined in paragraph 21 is very clear to determine when and how a financial instrument held or issued is to be recognized at amortized cost. The three characteristics indicated in 21a and the business strategy concept outlined in 21b state clearly when a financial instrument has to be measured at amortized cost.

Question 31: The proposed guidance would require an entity to measure its core deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-in-cost-to-service rate over the implied maturity of the deposits. Do you believe that this remeasurement approach is operational? Do you believe that the remeasurement approach is clearly defined? If not, what, if any, additional guidance is needed?

No, we do not believe that the remeasurement approach is operational, and we believe that there will be significant hurdles to make it operational. For instance, to determine the implied maturity of the core deposits, even using a weighted average period the deposits remain at an entity, would be too judgmental. Most banks consider core deposits to be a quasi-permanent source of financing. Therefore, determining the maturity for discounting would be a purely theoretical exercise. Also, even if it could be determined, what would the amount of the discounted core deposits signify? Therefore, we do not believe this exercise is worth the effort.

Presentation

Questions for All Respondents

Question 32: For financial liabilities measured at fair value with all changes in fair value recognized in net income, do you agree that separate presentation of changes in an entity's credit standing (excluding changes in the price of credit) is appropriate, or do you believe that it is more appropriate to recognize the changes in an entity's credit standing (with or without changes in the price of credit) in other comprehensive income, which would be consistent with the IASB's tentative decisions on financial liabilities measured at fair value under the fair value option? Why?

We believe that measuring liabilities at fair value is a very questionable practice. Under the FASB guidance all financial liabilities will be measured at fair value, while the IASB specifies that this practice applies only to a few cases (derivatives, trading, mismatch or investment companies, and, except for derivatives, the liability has to be designated to be measured at fair value since inception). We believe that the effect in the entity's credit standing should be separated and presented in other comprehensive income rather than in income. The reason for this is because we believe it will be more prudent to separate this element, which in most cases will generate a credit to other comprehensive income.

Question 33: Appendix B describes two possible methods for determining the change in fair value of a financial liability attributable to a change in the entity's credit standing (excluding the changes in the price of credit). What are the strengths and weaknesses of each method? Would it be appropriate to use either method as long as it was done consistently, or would it be better to use Method 2 for all entities given that some entities are not rated? Alternatively, are there better methods for determining the change in fair value attributable to a change in the entity's credit standing, excluding the price of credit? If so, please explain why those methods would better measure that change.

We believe that determining the change in fair value of a liability attributable to a change in the entity's credit standing using the ratings of the credit agency only covers a portion of the entities, even if it would include the majority of listed entities. However, the standard should apply to all entities. Accordingly, to measure the impact of a change in the entity's credit standing, comparing the change in the entity's specific interest rate to the change in the benchmark rate would cover all entities. Therefore, if a standard is required to have general application, Method 2 included in the guidance is the one that should be used.

Question 34: The methods described in Appendix B for determining the change in fair value of a financial liability attributable to a change in an entity's credit standing (excluding the changes in the price of credit) assume that the entity would look to the cost of debt of other entities in its industry to estimate the change in credit standing, excluding the change in the price of credit. Is it appropriate to look to other entities within an entity's industry, or should some other index, such as all entities in the market of a similar size or all entities in

the industry of a similar size, be used? If so, please explain why another index would better measure the change in the price of credit.

Although we believe that using more specific indexes, such as the index of a certain industry or entities in a market that have similar size, is better than using a general index, this kind of information may be available in countries with a highly developed economy that maintain these statistics, but it generally will not be available in other countries. Therefore, for practical purposes a general index should be used.

Questions for Users

Question 35: For financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income, do you believe that the presentation of amortized cost, the allowance for credit losses (for financial assets), the amount needed to reconcile amortized cost less the allowance for credit losses to fair value, and fair value on the face of the statement of financial position will provide decision-useful information? If yes, how will the information provided be used in your analysis of an entity? If not, why?

No, we do not believe that information on the reconciliation of the financial instruments to fair value on the face of the statement of financial position will provide decision-useful information, since as indicated in the measurement section, the fair value in these kinds of instruments is hypothetical information assuming the assets are sold or the liabilities are prepaid at their fair value. We believe that financial instruments, for which the business strategy is to collect or pay the contractual cash flows, should be measured at amortized cost, and disclosure of certain fair value information may be useful.

Question 36: Do you believe that separately presenting in the performance statement significant changes in the fair value of financial liabilities for changes in an entity's credit standing (excluding the changes in the price of credit) will provide decision-useful information? If yes, how will the information provided influence your analysis of the entity? If not, why? Do you believe that changes in the price of credit also should be included in this amount? If so, why?

No, we do not believe that presenting in the performance statement significant changes in the fair value of financial liabilities for changes in the entity's credit standing would provide decision-useful information as such effect is far from being realized. In the case of entities for which the business strategy is to pay the contractual cash flows of the liabilities, such effect will reverse in future periods as the due date of the liability approaches.

Credit Impairment

Questions for All Respondents

Question 37: Do you believe that the objective of the credit impairment model in this proposed Update is clear? If not, what objective would you propose and why?

Yes, the objective is very clear. However, the proposed model would accelerate the recognition of expected credit losses to the date on which the loan is made. This would not result in an adequate matching of revenues and expenses. Even if we believe that the effective interest rate should not include the effect of expected credit losses, a separate provision should be made in proportion to the interest earned.

Question 38: The proposed guidance would require an entity to recognize a credit impairment immediately in net income when the entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s). The IASB Exposure Draft, *Financial Instruments: Amortised Cost and Impairment* (Exposure Draft on impairment), would require an entity to forecast credit losses upon acquisition and allocate a portion of the initially expected credit

losses to each reporting period as a reduction in interest income by using the effective interest rate method. Thus, initially expected credit losses would be recorded over the life of the financial asset as a reduction in interest income. If an entity revises its estimate of cash flows, the entity would adjust the carrying amount (amortized cost) of the financial asset and immediately recognize the amount of the adjustment in net income as an impairment gain or loss. Do you believe that an entity should immediately recognize a credit impairment in net income when an entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s) as proposed in this Update, or do you believe that an entity should recognize initially expected credit losses over the life of the financial instrument as a reduction in interest income, as proposed in the IASB Exposure Draft on impairment?

We prefer a recognition of expected credit losses that is proportional to the interest earned. The expected credit losses can be determined based on the contractual amounts that are not expected to be collected. The only piece of the equation that would be lacking is the number of periods over which the allowance should be created. However, this could be based on past experience.

Question 39: Do you agree that a credit impairment should not result from a decline in cash flows expected to be collected due to changes in foreign exchange rates, changes in expected prepayments, or changes in a variable interest rate? If not, why?

Yes, we agree that credit impairments should not result from the factors indicated in the question, because these are not related to the credit standing of the customer. A change in exchange rate or a variable interest rate are changes in market conditions that have to be recognized as such, and if there are special conditions regarding prepayments, they should be considered an embedded derivative.

Question 40: For a financial asset evaluated in a pool, the proposed guidance does not specify a particular methodology to be applied by individual entities for determining historical loss rates. Should a specific method be prescribed for determining historical loss rates? If yes, what specific method would you recommend and why?

We believe that in this particular case the standard setter should establish the principle, while the methodology should be established by the banking regulators. We have been discussing with the Mexican National Banking and Securities Commission the methodology they will prescribe to recognize expected losses. It is based on actuarial computations based on statistics of prior years' losses. We were able to ascertain that the assumptions they used are very sound.

Question 41: Do you agree that if an entity subsequently expects to collect more cash flows than originally expected to be collected for a purchased financial asset, the entity should recognize no immediate gain in net income but should adjust the effective interest rate so that the additional cash flows are recognized as an increase in interest income over the remaining life of the financial asset? If not, why?

Yes, we agree that if an entity expects to collect more cash flows than originally expected to be collected for a purchased financial asset, no immediate gain should be recognized. However, as opposed to adjusting the effective interest rate so that the additional cash flows are recognized as an increase in interest income over the remaining life of the financial asset, we recommend adjusting the previously recorded allowance. This is a change in the original estimation of the yield of the purchased financial instrument, which should be recognized prospectively.

Question 42: If a financial asset that is evaluated for impairment on an individual basis has no indicators of being individually impaired, the proposed guidance would require an entity to determine whether assessing the financial asset together with other financial assets that have similar characteristics indicates that credit impairment exists. The amount of the credit impairment, if any, would be measured by applying the historical loss rate (adjusted for existing economic factors and conditions) applicable to the group of similar financial assets to the individual financial asset. Do you agree with this requirement? If not, why?

Yes, we agree with the requirement to apply a historical loss rate applicable to a group of similar financial assets to the individual financial asset. This is because the statistical data on prior losses refers to the whole loan portfolio that the entity had over several years and not for each loan. If the statistical data is segmented by type of loan (which is preferable), the loan loss experience to be applied to an individual loan should be that of the related segment, such as home, auto, commercial (which can be further segmented by type of industry), etc.

Questions for Users

Question 43: The credit impairment model in this proposed Update would remove the probable threshold. Thus, an entity would no longer wait until a credit loss is probable to recognize a credit impairment. An entity would be required to recognize a credit impairment immediately in net income when an entity does not expect to collect all of the contractual cash flows (or, for purchased financial assets, the amount originally expected). This will result in credit impairments being recognized earlier than they are under existing U.S. GAAP. Do you believe that removing the probable threshold so that credit impairments are recognized earlier provides more decision-useful information?

Yes, we agree that the probable loss threshold should be eliminated and that losses should be recognized based on past experience, since due to economic or business management conditions, losses in a portfolio of loans are gradually building up and are not noticed by the lender until the customer does not meet its monthly payments or its financial ratios start to show signs of deterioration. The loss did not occur at the moment a problem is noticed, but as it was building up. Therefore, recognizing losses as they are building up gives better decision-making information.

Question 44: The proposed guidance would require that in determining whether a credit impairment exists, an entity consider all available information relating to past events and existing conditions and their implications for the collectibility of the cash flows attributable to the financial asset(s) at the date of the financial statements. An entity would assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and would not forecast future events or economic conditions that did not exist at the reporting date. In contrast, the IASB Exposure Draft on impairment proposes an expected loss approach and would require an entity to estimate credit losses on the basis of probability weighted possible outcomes.

Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting future events or economic conditions that did not exist at the end of the reporting period would provide more decision-useful information?

Yes, we agree that forecasting future events, based on economic trends that can be observable, would be a sound practice. For instance, if due to economic trends a certain industry is deteriorating and its products are being replaced due to technological, environmental or other changes, those industries will generate lower cash flows in future years, and therefore the probability of credit impairments in such industries may be higher, and that factor should be taken into account. Past experience on declining industry sectors could be used to forecast the effects on new sectors that start to decline. This is an economic condition existing at the reporting date that should be considered.

Question 45: The proposed guidance would require that an appropriate historical loss rate (adjusted for existing economic factors and conditions) be determined for each individual pool of similar financial assets. Historical loss rates would reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool. Do you agree with that approach?

Yes, we agree that historical loss rates should be determined for pools of similar financial assets, such as home, auto or credit card loans, since the loan losses behave differently from one pool to the other. This is information that will not be difficult to prepare, since most lenders have been managing their portfolios by segments, since each one has a different dynamic.

Questions for Preparers and Auditors

Question 46: The proposed guidance would require that in determining whether a credit impairment exists, an entity consider all available information relating to past events and existing conditions and their implications for the collectibility of the cash flows attributable to the financial asset(s) at the date of the financial statements. An entity would assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and would not forecast future events or economic conditions that did not exist at the reporting date. In contrast, the IASB Exposure Draft on Impairment proposes an expected loss approach and would require an entity to estimate credit losses on basis of probability weighted possible outcomes.

Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting future events or economic conditions that did not exist at the end of the reporting period would be more appropriate? Are both methods operational? If not, why?

We believe that the entity should differentiate among economic conditions that exist at the end of the reporting period, such as a decline in a certain industry, and those that are expected future economic conditions. If an industry is declining due to technological, environmental or other conditions, that trend should be considered to adjust past experience, since a declining industry will generate less cash flows to pay or settle its obligations.

Question 47: The proposed guidance would require that an appropriate historical loss rate (adjusted for existing economic factors and conditions) be determined for each individual pool of similar financial assets. Historical loss rates would reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool. Would such an approach result in a significant change in practice (that is, do historical loss rates typically reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool or some shorter period)?

Using historical loss rates to reflect cash flows that the entity does not expect to recover would result in a significant change in practice, since loan loss allowances will increase to new levels that the entity will have to evaluate and the auditor will have to attest that the evaluation is correct. New procedures to gather and analyze data will have to be established by entities, and auditors will need to design new audit procedures to attest that the historical data has been correctly compiled and properly analyzed and that sound assumptions derived from that analysis have been used to determine the credit loss allowances. This will have to be made for similar assets, which will require determining what is considered similar and will require more detailed information.

Interest Income

Questions for All Respondents

Question 48: The proposed guidance would require interest income to be calculated for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses. Do you believe that the recognition of interest income should be affected by the recognition or reversal of credit impairments? If not, why?

We agree that interest should only be accrued on the amounts expected to be collected. Therefore, that amount should be net of credit impairments. If the net amount changes due to an increase or a decrease in credit impairments, interest should continue to be accrued on the net amount, as long as interest is expected to be collected on such amount. The reversal of a credit impairment should affect the account where the provision for the allowance for credit losses was charged, but no portion of the reversal should be considered as interest income.

Question 49: Do you agree that the difference in the amount of interest contractually due that exceeds interest accrued on the basis of an entity's current estimate of cash flows expected to be collected for financial assets should be recognized as an increase to the allowance for credit losses? If not, why?

Yes, we agree that such difference should be recognized as an increase to the allowance, since based on past experience such amount will be part of the contractual cash flows that will not be collected. This should be viewed on an overall basis for a pool of financial assets.

Question 50: The proposed guidance would permit, but would not require, separate presentation of interest income on the statement of comprehensive income for financial assets measured at fair value with all changes in fair value recognized in net income. If an entity chooses to present separately interest income for those financial assets, the proposed guidance does not specify a particular method for determining the amount of interest income to be recognized on the face of the statement of comprehensive income. Do you believe that the interest income recognition guidance should be the same for all financial assets?

We believe that permitting separate presentation of interest income on the statement of comprehensive income for financial assets measured at fair value would contradict the measurement basis of those assets. What is important for such assets is their change in fair value, and that is what should be shown in the statement of comprehensive income.

Question 51: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient to understand the proposed credit impairment and interest income models? If not, what additional guidance or examples are needed?

The implementation guidance and illustrative examples appear to be sufficient to understand the proposed credit impairment and interest income models. However, we believe additional guidance may be needed as the illustrative examples are implemented in practice. We recommend that field tests be carried out before the effective date of the new standard to be able to analyze the issues and develop additional guidance.

We recommend the development of some examples to demonstrate how to measure the fair value of a financial asset that is up for sale and shows impairment indicators. It is unclear whether fair value should consider the impairment or if a portion of the allowance that has been recognized on the portfolio to which the asset belongs should be allocated directly to the asset. Also we believe guidance is needed to evaluate a high quality loan, which is evaluated separately from a portfolio.

Paragraph IG144 contains a typo, since in line 8 it refers to Entity A, while the entity in the example is Entity E.

Questions for Users

Question 52: Do you believe that the method for recognizing interest income on financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income will provide decision useful information? If yes, how will the information provided be used in your analysis of an entity? If not, why?

Yes, we agree that the proposed method will provide decision useful information since it will indicate the amount of interest earned that is expected to be collected. On the other hand, the interest being collected will be shown in the statement of cash flows.

Question 53: The method of recognizing interest income will result in the allowance for credit impairments presented in the statement of financial position not equaling cumulative credit impairments recognized in net income because a portion of the allowance will reflect the excess of the amount of interest contractually due over interest income recognized. Do you believe that this is understandable and will provide decision-useful information? If yes, how will the information provided be used? If not, why?

Yes, we believe that the information will be understandable, since an analysis of the activity of the allowance for loan losses will be provided as requested by paragraph 104a. As a result, the reader will know the total contractual amount of interest and how it has been segregated into what is expected to be collected and the amount not expected to be collected. On the other hand, the amounts collected will be shown in the statement of cash flows. Therefore, all the information regarding interest generation and collection will be provided.

Question 54: The proposed guidance would require interest income to be calculated for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses. Thus, the recognition of a credit loss would result in a decrease in interest income recognized. Similarly, a reversal of a previously recognized credit loss would increase the amount of interest income recognized. The IASB Exposure Draft on Impairment proposes that an entity calculate interest by multiplying the effective rate established at initial recognition by the amortized cost basis. The IASB's definition of *amortized cost basis* is the present value of expected future cash flows discounted by the effective interest rate established at initial recognition and, therefore, includes credit losses recognized to date. Thus, as initially expected credit losses are allocated over the life of the instrument, the amount of interest income decreases. Both the FASB's and the IASB's models for interest income recognition are similar in that the recognition of an impairment reduces the amount of interest income recognized. However, as noted in the questions above, the timing of credit impairments and the determination of the effective interest rate differ in the two proposed models. Thus, the amount of interest income recognized under the two proposed models will differ. Do you believe that the FASB's model or the IASB's model provides more decision-useful information? Why?

The FASB model will provide information on contractual cash flows not expected to be recovered but will not match revenues and credit losses, since these will be recognized immediately. The IASB model will have a better matching of interest and loan losses and therefore provides more decision-useful information. However, the reader will know the amount of the expected allowance that is being built to cover expected losses. We believe that the IASB model, which matches revenues with the recognition of credit losses, will need to disclose information on the amounts that, based on historical experience, will not be recovered and the period over which the allowance will be built as a proportion of the interest that is being recognized.

Question 55: Do you agree that an entity should cease accruing interest on a financial asset measured at fair value with qualifying changes in fair value recognized in other comprehensive income if the entity's expectations about cash flows expected to be collected indicate that the overall yield on the financial asset will be negative? If not, why?

Yes, we fully agree with this concept. To date, practice has been to cease accruing interest when the loan becomes delinquent for a certain number of months, which always was an arbitrary measure. Ceasing the accrual of interest when the entity's expectations about cash flows expected to be collected indicate that the overall yield on the financial asset will be negative will result in not recognizing what will not be a cash inflow.

Hedge Accounting

Questions for All Respondents

Question 56: Do you believe that modifying the effectiveness threshold from *highly effective* to *reasonably effective* is appropriate? Why or why not?

No, we do not agree. We believe that evaluating whether a hedge is *highly effective* results in determining the ratio by which there is effectiveness of the hedging instrument in compensating the variations of the hedged item. Using a *reasonably effective* threshold would be too subjective and solely based on a qualitative assessment, which in many cases could result in no real hedging of the risks. After several years of implementation of the *highly effective* approach, preparers, auditors and users are well acquainted with the methodologies in place. Hence we do not concur with a criteria that promotes the softening of a requirement needed to qualify for hedge accounting.

If effectiveness is to be measured on the basis of being *reasonably effective*, we believe that guidance should be provided as to the limits of what would be considered to be *reasonably effective* and how reassessment of effectiveness should be made. We believe that *reasonably effective* is not a well-defined concept.

Question 57: Should no effectiveness evaluation be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term? Why or why not?

No. Considering that at the inception of the hedge, the fair value of the hedging instrument and the hedged risk are similar (zero or near zero), and that the hedging instrument and the hedged item are expected to change in value in opposite directions but by a similar amount, we could be tempted to conclude that no future evaluations of effectiveness will be necessary. However, this is not always the case, and effectiveness may no longer exist due to changes in fair value that are not proportional. Also, there are complex derivatives whose behavior cannot be reasonably predicted. If the effectiveness of the hedging relationship is not monitored, it will not be possible to properly measure the ineffectiveness affecting the statement of comprehensive income. The lack of subsequent oversight of hedging relationships is equivalent to an assembly line where quality control is designed to be enforced only at the entry point of the process without further follow up to ensure that the assembly of components that were joined at the beginning is not undone at a later stage.

Question 58: Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? Why or why not?

No. An evaluation of effectiveness made only if circumstances suggest that the hedging relationship may no longer be reasonably effective would be very difficult to implement, since the only way to determine if a relationship is no longer effective is through testing that the changes in value of both the hedged and hedging instruments are compensating adequately. If no subsequent periodic assessments are made, we would be assuming that changes in value are always predictable, which is not the case. Of course, if the hedging relationship is not tested on a continuing basis, there would be a belief that the hedging relationship is working if circumstances do not suggest otherwise. Evaluation of effectiveness indicators would be too subjective and could lead to desired rather than actual results.

Questions for Users

Question 59: Do you believe that a hedge accounting model that recognizes in net income changes in the fair value and changes in the cash flows of the risk being hedged along with changes in fair value of the hedging instrument provides decision-useful information? If yes, how would that information be used? If not, why?

Yes, we believe that as long as there is adequate disclosure of the compensating amounts included in net income and of any ineffectiveness, recognizing in net income the changes in fair value and the changes in the cash flows of the risk being hedged along with the changes in fair value of the hedging instrument will provide decision-useful information. This would provide the necessary information to evaluate if the risk management of the entity is yielding the expected results. Linking hedging activities with risk management is what is important in hedge accounting. In this case, we are assuming that financial assets and liabilities are measured at fair value.

Question 60: Do you believe that the proposed changes to the hedge accounting model will provide more transparent and consistent information about hedging activities? If yes, why and how would you use the information provided? If not, what changes do you disagree with and why?

No, we do not believe that the changes to the hedge accounting model will provide more transparent and consistent information about hedging activities, unless these are linked to the entity's risk management procedures. Therefore, evaluation of the effectiveness of hedging strategies will be necessary to evaluate if the procedures to manage risk that have been established are functioning properly. To achieve this goal, the effectiveness of the hedging relationship must be evaluated (retrospectively measured with actual results and prospectively evaluated) throughout the life of the hedge to determine if it is highly effective and, therefore, if the risk management procedures are functioning properly.

Questions for Preparers and Auditors

Question 61: Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for cash flow hedging relationships? If yes, what constraints do you foresee and how would you alleviate them?

We believe that the constraints to evaluate if a hedging relationship is effective or not have existed for several years and that both the entities and their auditors are acquainted with the methodologies to determine ineffectiveness. The major constraint clearly would be to have people with adequate knowledge to test effectiveness and to audit that the effectiveness tests are properly done. As new and more sophisticated financial instruments come into the market, more knowledge is needed both at the preparer and auditor levels. This has been the case in the past and will continue to be so in the future. Therefore, existing constraints would not be alleviated.

Question 62: Do you foresee any significant operational concerns or constraints in creating processes that will determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness at each reporting period? If yes, what constraints do you foresee and how would you alleviate them?

We do not see how it will be possible to create processes to determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective without reassessing the hedge effectiveness. Any process that will "suggest" rather than verify will be subjective, and ineffectiveness may be discovered after the fact. Therefore, reassessment of the hedging effectiveness at each reporting period will be necessary. To date, entities in the financial services industry (banks, stockbrokers, traders, insurance entities, etc.) have developed procedures to reassess effectiveness at the end of each reporting period as part of their internal control system. Some procedures are working

better than others, but internal control should not be loosened in the search for reasonable effectiveness, which, as indicated above, is too subjective.

Question 63: Do you foresee any significant operational concerns or constraints arising from the inability to discontinue fair value hedge accounting or cash flow hedge accounting by simply dedesignating the hedging relationship? If yes, what constraints do you foresee and how would you alleviate them?

We believe that all hedging relationships are designated in response to an entity's risk management procedures. Dedesignation of a hedging relationship without valid risk management support should not be allowed. Due to changes in economic circumstances, what was previously a valid risk management procedure may no longer be valid today or may be expected to become invalid in the near future. In such cases, proper action might be that selling the hedging instrument would be advantageous, either realizing a profit or cutting cash outflows due to margin calls, even if the hedged item is no longer covered. Business reasons, not simple dedesignation, will indicate when a hedging relationship should be eliminated.

Question 64: Do you foresee any significant operational concerns or constraints arising from the required concurrent documentation of the effective termination of a hedging derivative attributable to the entity's entering into an offsetting derivative instrument? If yes, what constraints do you foresee and how would you alleviate them?

No, we do not believe that entities will face significant operational concerns when preparing the documentation when entering into an offsetting derivative instrument that will terminate the effect of the hedging derivative, other than demonstrating that the derivatives fully offset the changes in fair value of the hedged items.

Disclosures

Question for All Respondents

Question 65: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement do you believe should not be required and why?

In general, we believe that the disclosure requirements should be designed to indicate the goals and objectives in managing financial instrument risks and how established goals and objectives are achieved. For instance, in the case of loan granting activities, this would include how the yield is generated and how expected credit losses are recognized, so that the consequences of business decisions are understood by the reader. In the case of hedging, the reader should be able to understand how hedging activities are consistent with the entity's stated risk management strategy.

Questions for Users

Question 66: For purchased financial assets, do you believe that the requirement to disclose the principal balance, the purchaser's assessment of the discount related to credit losses inherent in the financial instrument at acquisition, any additional difference between the amortized cost and the principal balance, and the amortized cost in each period will provide decision-useful information? If yes, how will the information provided influence your analysis of an entity? If not, why?

If an entity purchases financial assets, which have credit losses inherent in the financial instrument, there should be a business reason for doing so. Disclosures should indicate the business reasons and how management is achieving or not achieving its objectives behind the purchase of financial assets. Therefore, information about the purchaser's assessment of the discount related to credit losses at the purchase date should be

compared to the subsequent actual losses for each significant portfolio or on an overall basis, so that the reader can evaluate the business strategy.

Question 67: Are there any other disclosures that you believe would provide decision-useful information and why?

Our concern is that the standard requires too many detailed disclosures, and some valuable information may not be disclosed if not specifically requested. Developing a framework for disclosures may be an enormous task, but it will be worthwhile, since traders are always trying to circumvent the rules.

Some of our concerns relate to risks and exposures that are not covered or mitigated, since the entity's risk management strategy is not to cover or mitigate them, and no disclosure is required or made about such risks and exposures. We believe the entity should indicate which risks and exposures are not covered or mitigated and why.

Effective Date and Transition

Questions for All Respondents

Question 68: Do you agree with the transition provision in this proposed Update? If not, why?

Due to the complexity and the probable size of the adjustments, making a cumulative adjustment to restate the last statement of financial position before the effective date, seems to be the most practical way to achieve the implementation of the new standard. What would be lost is comparative information for the prior year before the effective date, which can be addressed with the appropriate disclosures.

Question 69: Do you agree with the proposed delayed effective date for certain aspects of the proposed guidance for nonpublic entities with less than \$1 billion in total consolidated assets? If not, why?

Yes, we believe that a delayed effective date for certain aspects of the proposed guidance for nonpublic entities will be helpful for those entities that do not have sophisticated treasury and financial reporting capabilities. The FASB will be able to issue additional practical guidance based on the experience of the public companies that do have more experienced personnel in their treasuries and financial reporting areas. A post-implementation review should start as soon as the first reports are issued by public entities, or even before through a Q&A process centralized by a special purpose desk at the FASB, where the staff that prepared the standard would gather information and answer questions so that implementation is consistent across entities.

Questions for Preparers and Auditors

Question 70: How much time do you believe is needed to implement the proposed guidance?

We believe that once the final standard is issued, entities will require at least two to three fiscal years to prepare the information, to determine the adjustments and to prepare tentative draft financial statements with such information.

Question 71: Do you believe the proposed transition provision is operational? If not, why?

As previously indicated, we believe that the proposed transition provision is a practical way to implement the new standard, even if comparative information would not be available.

Should you require additional information on our comments listed above, please contact Juan M. Gras at (52) 55 5596 5633 ext 105 or me at (52) 55-5596 5633 ext 103 or by e-mail at jgras@cinif.org.mx or fperezcervantes@cinif.org.mx, respectively

Sincerely,

C.P.C. Felipe Perez Cervantes
President Mexican Financial Reporting Standard Board
Consejo Mexicano para la Investigacion y Desarrollo
de Normas de Informacion Financiera (CINIF)