



November 9, 2010

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

Attn: Mitsuhiro Takemura

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 exposure draft for the proposed amendment to IAS 12, *Income Taxes*. Set forth below you will find our responses to the questions included in the exposure draft (ED).

General comment

We believe that deferred tax assets and liabilities should be determined and measured as a function of the expected manner of recovery or settlement of the underlying assets and liabilities from which they are derived. Consequently, we agree with what is established in existing paragraphs 51 and 52 of the current IAS 12.

Accordingly, we believe that IAS 12 should not be modified, since the aforementioned paragraphs already clearly establish the basic principles for the measurement of deferred tax assets and liabilities.

Additionally, we believe such paragraphs are well supported obviate the need for SIC 21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which we believe should be revoked.

Question 1 – Exception to the measurement principle

The Board proposes an exception to the principle in IAS 12 that the measurement of deferred tax liabilities and deferred tax assets should reflect the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities. The proposed exception would apply when specified underlying assets are remeasured or revalued at fair value.

Do you agree that this exception should apply when the specified underlying assets are remeasured or revalued at fair value?

We do not agree with the establishment of this exception.

Why or why not?

We do not agree because an entity can elect the asset revaluation model regardless of whether or not it has the intent to sell such assets and thereby recover the carrying amount of the asset entirely by sale.

In other words, the fact that an entity revalues its assets does not mean it expects to recover the carrying amount entirely by sale. This is evidenced by the fact that IAS 16, 38 and 40 do not require existence of intent to sell the assets to be eligible to use the revaluation model. Rather, use of the revaluation model is conditioned solely on the entity's ability to reliably measure the fair value of the asset (property, plant, equipment and investment property) or the existence of an active market for the asset (intangible assets).

Question 2 – Scope of the exception

The Board identified that the expected manner of recovery of some underlying assets that are remeasured or revalued at fair value may be difficult and subjective to determine when deferred tax liabilities or deferred tax assets arise from:

- a) investment property that is measured using the fair value model in IAS 40;
- b) property, plant and equipment or intangible assets measured using the revaluation model in IAS 16 or IAS 38;
- c) investment property, property, plant and equipment or intangible assets initially measured at fair value in a business combination if the entity uses the fair value or revaluation model when subsequently measuring the underlying asset; and
- d) others underlying assets or liabilities that are measured at fair value or on a revaluation basis.

The Board proposes that the scope of the exception should include the underlying assets described in (a), (b) and (c), but not those assets or liabilities described in (d).

Do you agree with the underlying assets included within the scope of the proposed exception?

We do not agree with the inclusion of exceptions to the basic principle.

Why or why not?

See the reasons explained in our response to the first question above.

If not, what changes to the scope do you propose and why?

We recommend not making any revisions to IAS 12 for this issue; since we believe the criteria established in existing paragraphs 51 and 52 is sufficient.

Nevertheless, we believe SIC 21 should be revoked.

Question 3 – Measurement basis used in the exception

The Board proposes that, when the exception applies, deferred tax liabilities and deferred tax assets should be measured by applying a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely through sale. This presumption would be rebutted only when an entity has clear evidence that it will consume the asset's economic benefits throughout its economic life.

Do you agree with the rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale when the exception applies?

We do not agree.

Why or why not? If not, what measurement basis do you propose and why?

As previously explained, we do not believe the revaluation of an asset suggests intent to sell and resulting recovery of the carrying amount of the asset entirely by sale.

Question 4 – Transition

The Board proposes that the amendments should apply retrospectively. This requirement includes retrospective restatement of all deferred tax liabilities or deferred tax assets within the scope of the proposed amendments, including those that were initially recognised in a business combination.

Do you agree with the retrospective application of the proposed amendments to IAS 12 to all deferred tax liabilities or deferred tax assets, including those that were recognised in a business combination?

Although we believe that IAS 12 should not be revised, we also believe that if it is revised pursuant to the ED, this would not reflect any change in the basic principle established in existing paragraph 51 of IAS 12. As a result, any changes in the amount of deferred tax assets and liabilities required by these modifications in essence represent the correction of an error, except to the extent that SIC 21 was followed for non-depreciable revalued assets, and would require retrospective treatment.

Why or why not? If not, what transition method do you propose and why?

Not applicable.

Question 5 – Other comments

Do you have any other comments on the proposals?

While we recommend that no modifications of IAS 12 be made for this issue, we repeat that we believe SIC 21 should be revoked. Additionally, we believe the examples A, B C and 51B are useful.

Should you require additional information on our comments listed above, please contact Elsa Beatriz García Bojorges at (52) 55 5596 5633 ext. 113 or me at (52) 55 5596 5633 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 para la Investigación y Desarrollo
de Normas de Información Financiera (CINIF)