



17 May 2010.

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

Dear Board Members:

Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF) the accounting standards setter body in Mexico, welcomes the opportunity to submit its comments on the **Working draft: Liabilities**. Set forth below you will find our comments on the topics included in the Working draft (WD).

1. SCOPE

In terms of paragraph 2, this IFRS *applies "to all liabilities except:*

- (a) those whose treatment is specified by another IFRS; or*
- (b) those resulting from an **executory** contract, unless the contract is onerous."*

It seems to us that the WD addresses only liabilities whose amount or timing is uncertain and which are not covered in the scope of another standard. Thus, there are still outside the scope of this WD other liabilities that are not covered by the WD nor in other standards such as accounts payable to suppliers, advances from customers, accrued liabilities, taxes (other than income tax), cash received on account of third parties.

As a result of the situations commented above we consider that it is necessary to amend the scope of the WD in order to clearly explain such scope.

2. DEFINITION OF A LIABILITY

Paragraph 22 mentions that *"Present obligations that are capable of resulting in an outflow of resources meet the definition of a liability even if the likelihood of an outflow is low"*. Nevertheless, paragraph 19 states *"The measurement of this obligation takes into account the range of possible outcomes and their associated probabilities. In some situations, the available evidence might suggest that the probability of an adverse outcome is so low that the liability is immaterial."*

In this regard, we do not agree with the last part of paragraph 19, which indicates that if the probability of an adverse outcome is so low, the liability should not be recognized. We consider that this situation contradicts what is stated in paragraph 22 and the WD philosophy. In our opinion such part of paragraph 19 should be removed.

Also paragraph 51 states *“If, in situations of uncertainty described in paragraphs 13-15, an entity has judged that it does not have a liability. . .”*. In this situation, an entity shall disclose this fact, unless the possibility of any outflows of resources is remote. We believe that this sentence underlined should be removed.

3. MEASUREMENT

In terms of paragraphs 36A and 36B:

“An entity shall measure a liability at the amount that it would rationally pay at the end of the reporting period to be relieved of the present obligation.”

“The amount that an entity would rationally pay to be relieved of an obligation is the lowest of:

- (a) the present value of the resources required to fulfill the obligation, measured in accordance with Appendix B;*
- (b) the amount that the entity would have to pay to cancel the obligation; and*
- (c) the amount that the entity would have to pay to transfer the obligation to a third party.”*

In this regard, we suggest that the liabilities must be measured only by using the present value of the resources required to fulfill the obligation, and if the entity could fulfill its liabilities by other means, such as the cancellation or the transfer of the obligation, the effects must be recognized until the transaction occurs.

Additionally, considering that the new IFRS would be applied to all liabilities, not just those of uncertain amount or timing, we believe that it would be inappropriate to apply the same rule for liabilities whose amount and timing are known, such as those arising from cash received on account of third parties, advances from customers, taxes (other than income tax). It should be established in the new IFRS, that such liabilities should be measured using face value rather than present value.

4. SUBSEQUENT MEASUREMENT

Paragraph 36E indicates that *“An entity shall adjust the carrying amount of a liability at the end of each reporting period to the amount that it would rationally pay to be relieved of the present obligation at that date”*. We believe that the meaning of “rationally pay” should be clearly explained.

Appendix B, paragraph B18, stated that *“Remeasurement of the present value of the resources required to fulfill the obligation takes into account changes in estimates of:*

- (a) the expected outflows of resources;*
- (b) market assessments of the time value of money; and*
- (c) the risk that the actual outflows of resources might ultimately differ from those expected.”*

In order to be more specific in the measurement standard we suggest the incorporation of the rule included in Appendix B to the body of the new IFRS.

Additionally, paragraph 36F states: *“Changes in the carrying amount of a liability resulting from the passage of time are recognized as a borrowing cost”*. However, we believe that it would be more clear to require the recognition of such effects in the income statement, or to incorporate them to an asset, if any other standard so provides.

5. CONTINGENT ASSETS

We suggest to indicate clearly which IFRS will cover contingent assets, once IAS 37 is replaced.

6. CONTINGENT LIABILITIES

We consider it is necessary to include the introduction paragraphs, as well as the basis for conclusions, explaining that unlike the previous standard, contingent liabilities that are measurable and qualify as a present obligation, are to be recognized on the balance sheet even if the likelihood of an outflow is low, since previously contingent liabilities were recognized only when such probability was greater than 50%.

7. IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities

The new IFRS supersedes IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* and IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*. We believe that the new IFRS should also remove IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, thus regulating the whole subject in the IFRS, without leaving a part of the standard in the IFRIC.

Should you require additional information on our comments listed above, please contact me at 00-52-55-5596 5633/26/34 or by e-mail at fperezcervantes@cinif.org.mx

Sincerely,

C.P.C. Felipe Perez Cervantes
President of the Consejo Mexicano para la Investigación y Desarrollo
de Normas de Información Financiera (CINIF)
(The Mexican Financial Reporting Standards Board – MFRSB)