

28th September 2009

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

Dear Boards' 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 **Exposure Draft: Fair Value Measurement**. Set forth below you will find our comments to the topics included in the Exposure Draft.

Definition of fair value and related guidance

Question 1

The exposure draft proposes defining fair value as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date' (an exit price) (see paragraph 1 of the draft IFRS and paragraphs BC15–BC18 of the Basis for Conclusions). This definition is relevant only when fair value is used in IFRSs. Is this definition appropriate? Why or why not? If not, what would be a better definition and why?

We agree to limit the definition of fair value to exit prices. However in the case of liabilities we believe that a settlement price should also be considered. In this regard we believe that the settlement price should be used unless it is likely that the liability will be transferred.

Scope

Question 2

In three contexts, IFRSs use the term 'fair value' in a way that does not reflect the Board's intended measurement objective in those contexts: (a) In two of those contexts, the exposure draft proposes to replace the term 'fair value' (the measurement of share-based payment transactions in IFRS 2 Share-based Payment and reacquired rights in IFRS 3 Business Combinations) (see paragraph BC29 of the Basis for Conclusions). (b) The third context is the requirement in paragraph 49 of IAS 39 Financial Instruments: Recognition and Measurement that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid (see paragraph 2 of the draft IFRS and paragraph BC29 of the Basis for Conclusions). The exposure draft proposes not to replace that use of the term 'fair value', but instead proposes to exclude that requirement from the scope of the IFRS. Is the proposed approach to these three issues appropriate? Why or why not? Should the Board consider similar approaches in any other contexts? If so, in which context and why?

We agree to replace the term “fair value” in the case of IFRS 2 and 3, and to scope out IAS 39, since in the case of financial instruments the methodology to determine values is subject to the characteristics of the instrument.

The transaction

Question 3

The exposure draft proposes that a fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the most advantageous market to which the entity has access (see paragraphs 8–12 of the draft IFRS and paragraphs BC37–BC41 of the Basis for Conclusions). Is this approach appropriate? Why or why not?

We believe that following the arms length basis what should be first observed is the principal market for an item, and not to use the most advantageous market, which may be illusory. Therefore the markets in which the entity operates its assets and liabilities should be observed first. Using the most advantageous market may create profits that will turn out to be unrealistic.

Question 4

The exposure draft proposes that an entity should determine fair value using the assumptions that market participants would use in pricing the asset or liability (see paragraphs 13 and 14 of the draft IFRS and paragraphs BC42–BC45 of the Basis for Conclusions). Is the description of market participants adequately described in the context of the definition? Why or why not?

We believe that market participants should refer to transactions that occur in the principal market in which the entity operates, not in the most advantageous market to which the entity may have access.

Application to assets: highest and best use and valuation premise

Question 5

The exposure draft proposes that: (a) the fair value of an asset should consider a market participant’s ability to generate economic benefit by using the asset or by selling it to another market participant who will use the asset in its highest and best use (see paragraphs 17–19 of the draft IFRS and paragraph BC60 of the Basis for Conclusions). (b) the highest and best use of an asset establishes the valuation premise, which may be either ‘in use’ or ‘in exchange’ (see paragraphs 22 and 23 of the draft IFRS and paragraphs BC56 and BC57 of the Basis for Conclusions). (c) the notions of highest and best use and valuation premise are not used for financial assets and are not relevant for liabilities (see paragraph 24 of the draft IFRS and paragraphs BC51 and BC52 of the Basis for Conclusions). Are these proposals appropriate? Why or why not?

We believe that using the ability that the market participants have to recognize future economic benefits based on the fair value of assets generates a risk in the case of revaluations of assets with a long useful life, such as property plant and equipment and

intangible assets, as far as when using the “income approach” the future benefits that will be generated only with the future operations or sale of the assets may be recognized in advance and not when earned.

In the case of the “highest and best use” assumption we believe it is not to be used by the owner of the asset, since it will be dependent on the intention the entity has to have a better use, which has to be substantiated. Also in many cases it will depend on how the buyer may use the assets, which is outside the reach of the entity.

We agree that a highest and best use cannot be used in any circumstance for financial assets and is irrelevant for financial liabilities.

Question 6

When an entity uses an asset together with other assets in a way that differs from the highest and best use of the asset, the exposure draft proposes that the entity should separate the fair value of the asset group into two components: (a) the value of the assets assuming their current use and (b) the amount by which that value differs from the fair value of the assets (ie their incremental value). The entity should recognise the incremental value together with the asset to which it relates (see paragraphs 20 and 21 of the draft IFRS and paragraphs BC54 and BC55 of the Basis for Conclusions). Is the proposed guidance sufficient and appropriate? If not, why?

We believe that if an entity uses an asset together with other assets it should continue to recognize the asset based on its present use and not in a way that could represent the highest and best use of the asset, unless it can be demonstrated that it is likely that the entity has the intention and possibility to change the use of the asset.

If an asset is used within a group of assets the entity should therefore not separate the value of the assets assuming its current use and the amount by which that value differs from the fair value of the assets (ie the incremental value) and should not recognize the incremental value. This would lead to recognize values that would be unrealistic and gains that have not been earned.

Application to liabilities: general principles

Question 7

The exposure draft proposes that: (a) a fair value measurement assumes that the liability is transferred to a market participant at the measurement date (see paragraph 25 of the draft IFRS and paragraphs BC67 and BC68 of the Basis for Conclusions). (b) if there is an active market for transactions between parties who hold a financial instrument as an asset, the observed price in that market represents the fair value of the issuer's liability. An entity adjusts the observed price for the asset for features that are present in the asset but not present in the liability or vice versa (see paragraph 27 of the draft IFRS and paragraph BC72 of the Basis for Conclusions). (c) if there is no corresponding asset for a liability (eg for a decommissioning liability assumed in a business combination), an entity estimates the price that market participants would demand to assume the liability using present value techniques or other valuation techniques. One of the main inputs to those techniques is an estimate of the cash flows that the entity would incur in fulfilling the obligation, adjusted for any differences between those cash flows and the cash flows that other market participants would incur (see paragraph 28 of the draft IFRS). Are these proposals appropriate? Why or why not? Are you aware of any circumstances in which the fair value of a liability held by one party is not represented by the fair value of the financial instrument held as an asset by another party?

Regarding the above proposals, we believe that:

- a) A fair value measurement should not always assume that the liability will be transferred to a market participant, but will have to be settled. Therefore consider a transfer price may be illusory, even if a transfer price can be determined, which is seldom possible. We believe that a transfer price may be used only in cases where a transfer is highly likely, such as those in which the entity has advanced negotiations to transfer a liability.
- b) If there is an active market for transactions between parties who hold a financial instrument as an asset, the observed price in that market may represent the fair value of the issuer's liability only in certain cases. For example, as is stated in the question, there are features that may be present in the asset, but not present in the liability such as the possibility of freely and easily transfer the asset, which in many cases cannot be present in the liability, since the market expects that the issuer will settle the liability, not transfer it. Therefore we believe that only in the rare cases in which a liability can be transferred and it is highly likely that the transfer will occur, a transfer price may be used.
- c) We agree that if there is no corresponding asset for a liability, the liability should be valued at the best estimate of the cash flows that the entity would incur in fulfilling the liability. We do not understand why the liability should be adjusted for any differences between those cash flows and the cash flows that other market participants would incur. First it would be very difficult to determine, if at all possible, which those cash flows would be and another market participant may seem to be more efficient to fulfill the liability, but in many cases would not be willing to take over other entities' liabilities unless they can derive a profit from the transaction, which will have to be negotiated. Therefore only when a negotiation is highly likely to be completed the liability may be adjusted, but only to the amount that has been or is likely to be agreed upon the parties.

Application to liabilities: non-performance risk and restrictions

Question 8

The exposure draft proposes that: (a) the fair value of a liability reflects non-performance risk, ie the risk that an entity will not fulfil the obligation (see paragraphs 29 and 30 of the draft IFRS and paragraphs BC73 and BC74 of the Basis for Conclusions). (b) the fair value of a liability is not affected by a restriction on an entity's ability to transfer the liability (see paragraph 31 of the draft IFRS and paragraph BC75 of the Basis for Conclusions). Are these proposals appropriate? Why or why not?

We believe that recognizing the nonperformance risk in the fair value of a liability is unacceptable, as the market participants will always try to obtain the full payment of the liability and the creditors are not soft people. The adjustment should be made only if the debt has been renegotiated by the non performing entity. Therefore we absolutely disagree with the concept that "The fair value of a liability is not affected by a restriction of an entity's ability to transfer the liability." If there is a restriction to transfer the settlement or fulfillment value is the one that has to be recognized.

Fair value at initial recognition

Question 9

The exposure draft lists four cases in which the fair value of an asset or liability at initial recognition might differ from the transaction price. An entity would recognise any resulting gain or loss unless the relevant IFRS for the asset or liability requires otherwise. For example, as already required by IAS 39, on initial recognition of a financial instrument, an entity would recognise the difference between the transaction price and the fair value as a gain or loss only if that fair value is evidenced by observable market prices or, when using a valuation technique, solely by observable market data (see paragraphs 36 and 37 of the draft IFRS, paragraphs D27 and D32 of Appendix D and paragraphs BC76–BC79 of the Basis for Conclusions). Is this proposal appropriate? In which situation(s) would it not be appropriate and why?

We agree that in the case of financial assets and certain financial liabilities, such as derivatives, the fair value of the asset or the liability may differ from the transaction price. This is valid for those financial assets or liabilities whose changes in value are to be recognized when they occur, and there may be a first day profit or loss between the transaction value and the closing value of the transaction day.

However we disagree that this can be applied to non monetary assets, such as property, plant and equipment or intangible assets, as in these cases the amount paid for them is the best evidence of their fair value and should be, therefore, used for their recognition.

Valuation techniques

Question 10

The exposure draft proposes guidance on valuation techniques, including specific guidance on markets that are no longer active (see paragraphs 38–55 of the draft IFRS, paragraphs B5–B18 of Appendix B, paragraphs BC80–BC97 of the Basis for Conclusions and paragraphs IE10–IE21 and IE28–IE38 of the draft illustrative examples). Is this proposed guidance appropriate and sufficient? Why or why not?

We agree with the proposed hierarchy of the inputs for the determination of the fair value, especially in those cases where there is no observable market. We believe that if different values exist or there is a range of values, the most conservative approach should be issued to avoid recognizing gains that are not earned and will generate impairment adjustments later on.

Disclosures

Question 11

The exposure draft proposes disclosure requirements to enable users of financial statements to assess the methods and inputs used to develop fair value measurements and, for fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period (see paragraphs 56–61 of the draft IFRS and paragraphs BC98–BC106 of the Basis for Conclusions). Are these proposals appropriate? Why or why not?

We agree that when an entity is using unobservable inputs should the disclosures should be more detailed, indicating the assumptions used and the effects of those assumptions to enable the users to assess the methods and inputs used and their effect.

Convergence with US GAAP

Question 12

The exposure draft differs from Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS 157) in some respects (see paragraph BC110 of the Basis for Conclusions). The Board believes that these differences result in improvements over SFAS 157. Do you agree that the approach that the exposure draft proposes for those issues is more appropriate than the approach in SFAS 157? Why or why not? Are there other differences that have not been identified and could result in significant differences in practice?

We agree with the differences between this exposure draft and the SFAS 157, except for the use of the “most advantageous market”, since we believe that the principal market in which the entity operates is the one that should be used. We are worried with the lack of convergence in this and other matters and we do not know if SFAS 157 will be modified in the future to converge with the IASB position. We recommend that discussions with the FASB be considered in the due process.

Other comments

Question 13

Do you have any other comments on the proposals in the exposure draft?

As indicated in our prior comments we believe that the use of fair value in the case of assets such as property, plant and equipment and intangible assets is not adequate, since the value of this assets is intended to be recovered from its use. Using fair value for these assets may result in recognizing in advance profits that have not been earned.

As there is a range of possible fair values in many circumstances, we believe that the most conservative option be selected, since changes in the market conditions, as those recently experienced, may change the values and unreal profits will have to be reversed.

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,

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