



30 July 2009

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

Dear Sirs:

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 Derecognition, proposed amendments to IAS 39 and IFRS 7. Set forth below you will find our comments to the topics included in the Exposure Draft.

We believe that several paragraphs of the amendments should be redrafted. The reason for this is a significant inconsistency between what is stated in the introductory paragraphs and those of the Standard itself that are authoritative.

Paragraph IN11 indicates that “However, the proposed approach is different from IAS 39 in that it does not combine elements of several derecognition concepts but rather focuses on a single element (control).” This is fine, and we agree with it; however, in the amended paragraphs of the Standard there is no definition of “control”, which is the essential concept for assessing when an asset should be derecognized. Such definition is found outside the Standard in the Basis for Conclusions (see below).

We believe that what is indicated in the Standard is more of a rule than a principle, since paragraphs 15A through 18A state that the derecognition of a financial asset occurs when “...the entity transfers the Asset and has no continuing involvement in it...”, and “...the transferee has the practical ability to transfer the Asset for the transferee’s own benefit.”. These concepts are the basis for the remainder of the amended paragraphs, which cannot be clearly understood unless the reader also reads the Basis for Conclusions.

In the Basis for Conclusions we find the definition of control in paragraphs BC11 to BC13 and the derecognition principle in paragraph BC14. We believe that these paragraphs should be included in the Standard preceding paragraphs 15A through 18A, which should be modified indicating that the concepts of continuing involvement and the transferee’s practical ability to transfer for its own benefit should support the derecognition principle based on control.

In other words, we believe paragraph BC14 should be the core of the principle-based standard. The IASB has always indicated that, as a policy, its standards should be

focused on principles, not on rules. However, we believe the derecognition amendments are based on rules.

Therefore, the explanation of derecognition in paragraph 17A should include "...that the focus of such an approach should be on whether the counterparty to a transfer of a financial asset (i.e. the transferee) has obtained control of the economic benefits of the asset so received (i.e. derecognition is assessed from the perspective of the transferee)" stated in paragraph AG15A.

Furthermore, regarding the concept of "practical ability to transfer for its own benefit", paragraph BC17 indicates that "...the right of a transferee to do as it pleases with an asset constitutes the ultimate evidence that the transferor has given up control." We also believe that this sentence should be included in the Standard to explain such concept. This sentence is far clearer than all the explanations given in paragraphs AG51A to AG52G, which could be better understood if the above sentence is included in paragraph 17A.

To improve the amendments these very clear explanations addressing derecognition should be included directly in the initial paragraphs of the Standard and not at the end in the Basis for Conclusions. Furthermore, a reader of the Standard translated to other languages will not have the opportunity to read the basis for conclusions to be able to understand the Standard, as these are not translated in the version available in other languages. This is an additional and very important reason to include the principle in the Standard.

We believe that SFAS 166 better discusses the principle for derecognition, indicating that it is based on control and that continuing involvement in the transferred assets is an element to judge whether or not control has been transferred. In order to achieve convergence, the amendments should be based on control, using the continuing involvement concept as an element for such assessment.

We also believe that instead of amending IAS 39, a separate standard on derecognition should be issued. The IASB should grab the opportunity it now has with a comprehensive revision of the standards regarding financial instruments. We recommend separate standards to address the main topics covered by IAS 39, instead of having a single lengthy comprehensive standard that is difficult to understand and use in practice. Each standard should have a presentation section and a disclosure section, which would avoid having to go back and forth between IAS 32 and IFRS 7 to obtain a full view of an issue. Opportunities like these to improve complicated and difficult standards such as those covering financial instruments are rare. This is one of those opportunities that should not be wasted.

In the following part of this letter you will find our comments to the questions raised on the proposed amendments.

Question 1 – Assessment of “the Asset” and “continuing involvement” at reporting level

Do you agree that the determination of the item to be evaluated for derecognition and the assessment of continuing involvement should be made at the level of the reporting entity?

We agree that the determination of the item to be evaluated for derecognition should be made at the level of the reporting entity. In the second part of paragraph AG47A it is clear that a parent would include its continuing involvement (or that of another member of the group) in a financial asset transferred by its subsidiary in the derecognition assessment in its consolidated financial statements. The first part of the paragraph is not clear since it indicates that "...if a subsidiary transfers to an unrelated third party a financial asset in which the parent of the subsidiary has continuing involvement, the subsidiary does not include the parent's involvement in the assessment of whether the asset qualifies for derecognition in its stand-alone financial statements."

The first part of the preceding paragraph does not address what should be done if the transfer is made to a related party, i.e. another subsidiary that is engaged in, say, factoring activities. It could be interpreted that derecognition in the stand-alone financial statements of the subsidiary would not be permitted as transfer is not made to an unrelated third party.

We believe that such derecognition should be permitted with adequate disclosure indicating that the transfer was made to a related party. As the paragraph is written, it seems that only if the continuing involvement of the parent is due to other circumstances, it does not preclude derecognition by the subsidiary. Therefore, we suggest that this paragraph be more precise.

Also, we believe that disclosure should be required for any other circumstance for which the parent has continuing involvement.

We agree that the determination of the item to be assessed for derecognition be made at the level of the reporting entity on the basis of that entity's remaining interest in the financial asset that was subject to the transfer.

Question 2 – Determination of “the asset” to be assessed for derecognition.

Do you agree with the criteria proposed in paragraph 16A for what qualifies as the item (ie the Asset) to be assessed for derecognition?

We agree with the criteria. However, it is somewhat difficult to understand the concept of “a proportionate share of the cash flows from the financial asset”. We believe that SFAS 166 is clearer and more understandable by using the concept of a “participating interest”. We recommend that this concept be used in the amendments.

Question 3 – Definition of “transfer”

Do you agree with the definition of a transfer proposed in paragraph 9?

We agree with this definition. Further to our prior comments, the concept of “control” should be included in the Standard using the one which is very clearly stated in paragraph BC11. If the approach of the amendments focuses on that single element (see IN11), we believe such definition should be included.

Question 4 – Determination of “continuing involvement”

Do you agree with the “continuing involvement” filter proposed in paragraph 17A(b), and also the exceptions made to “continuing involvement” in paragraph 18A?

We agree with the continuing involvement filter proposed in paragraph 17A(b) if it is used as a support of the element of control, which should be the core of the derecognition principle. Therefore, the exceptions made to continuing involvement in paragraph 18A should indicate that the approach for derecognition is whether the counterparty has obtained control of the economic benefits, and if so, "...none of the following constitutes continuing involvement:"

In that regard, we believe that paragraph 18A(c) should indicate that the other contracts associated with reacquiring the asset should be at the option of the transferor. This means that the transferee should not have a put option.

However, there is no definition of continuing involvement. Paragraphs 17A and 18A describe the absence of continuing involvement. We suggest that a definition of continuing involvement be included in the amendments. In that regard, the definition included in recently issued SFAS 166 could be used.

There appears to be an inconsistency between paragraphs 18A and 19A. Paragraph 18A indicates that "A transferor has no continuing involvement in the Asset if, as part of the transfer, it neither...obtains any new contractual rights or obligations relating to the asset.", and paragraph 19A indicates that "For a transfer...that meets the derecognition criteria...the transferor shall recognize any new assets obtained and new liabilities assumed in the transfer...". Are these new assets and liabilities (Paragraph 19A) different from the new contractual rights or obligations relating to the asset (Paragraph 18A) that represent continuing involvement and therefore prevent derecognition? If not, how is it possible to derecognize the asset?

We notice that SFAS 166 includes servicing the asset as an indicator of continuing involvement while the proposed amendments to IAS 39 indicate that servicing an asset in a fiduciary or agency relationship does not constitute continuing involvement. We believe this is because although servicing represents continuing involvement, it is not of a nature that would prevent derecognition. This is not properly explained and might be confusing.

Question 5 – "Practical ability to transfer for own benefit" test

Do you agree with the proposed "practical ability to transfer" derecognition test in paragraph 17A(c)?

The only way to understand "practical ability to transfer for own benefit" is by reading what is included in the Basis for Conclusions. As previously suggested, paragraph BC17 should be included here. Also, a cross reference to paragraphs AG51A, AG52A and AG52B to AG52G is needed.

Question 6 – Accounting for retained interests

Do you agree with the proposed accounting (both recognition and measurement) for an interest retained in a financial asset or a group of financial assets in a transfer that qualifies for derecognition?

We agree with the proposed accounting as stated in paragraphs 21A and 22A.

Question 7 – Approach to derecognition of financial assets

Do you agree that the proposed approach as a whole should be established as the new approach for determining the derecognition of financial assets?

We believe that the derecognition approach stated in paragraphs BC15 to BC18 should be included in the standard section and not just in the Basis for Conclusions. That is the only way to fully understand the “continuing involvement” and “transfer for its own benefit” tests.

Do you believe that the alternative approach set out in the alternative views should be established as the new derecognition approach instead?

We believe that the alternative view indeed has a sound accounting basis; however, it may be used very easily to set up transactions that are transfers in form but not in substance and result in derecognizing assets over which the entity still has control. The approach of judging the transfer from the transferee’s point of view avoids this. In cases where control has not actually been transferred, the transferee has not acquired the asset but a right to receive an amount equal to the cash flows of the asset controlled by the transferor.

Question 8 – Interaction between consolidation and derecognition

Do you agree that the proposed derecognition and consolidation approaches are compatible?

We believe that the proposed derecognition and consolidation approaches would be compatible if the concept of control is also used for derecognition. In the proposed amendments, control it is not used in the Standard itself, but rather in the introductory section and in the Basis for Conclusions.

Question 9 – Derecognition of financial liabilities

Do you agree with the proposed amendments to the principle for derecognition of financial liabilities in paragraph 39A?

We agree with the proposed amendments to the principle for derecognition of financial liabilities, since they indicate that derecognition occurs when the liability no longer exists. However, the definition of a liability does not follow the same wording as the one stated in paragraph 10 of IAS 37. You should consider having the same wording in both standards.

Question 10 – Transition

Do you agree with the proposed amendments to the transition guidance in paragraphs 106 and 107?

We agree with the prospective approach established in the transition guidance. Requiring a retrospective application would originate in certain cases significant adjustments that would affect the reliability that users of financial statements place on them. The effect of a prior different accounting treatment will gradually disappear over time.

Question 11 – Disclosures

Do you agree with the proposed amendments to IFRS 7?

We believe that paragraphs 42C to 42F may appear to be inconsistent with the standard set in paragraph 17A, which states: *“An entity shall derecognize an asset if:...(b) the entity transfers the asset and has no continuing involvement in it; or (c) the entity transfers the Asset and retains a continuing involvement in it but the transferee has the practical ability to transfer the asset for the transferee’s own benefit.”*

This is because paragraph 42C states that *“When an entity derecognizes financial assets but has continuing involvement in them...”* which is opposite to what paragraph 17A indicates, since derecognition of a financial asset is only possible when the transferor *“...has no continuing involvement in it...”*. This is because what is presently indicated in paragraph 17A is a rule supporting a principle. As we indicated before, the main issue in derecognition is a transfer of control that would enable the transferee *“to do as it pleases with an asset”*.

If continuing involvement is an element to judge control, it could exist in certain cases when derecognition is feasible, for instance when the only continuing involvement is servicing an asset, which the transferee can take over at any moment. If paragraphs 17A and 18A indicate clearly that continuing involvement is an indicator of control, the inconsistency indicated above would be avoided.

Other comments

We believe that the servicing asset or liability referred to in paragraph AG52H should be recognized only for the amount by which the fee is higher or lower than the fair compensation to manage the assets. This should be clearly stated in this paragraph, since it seems that the total fee is recognized at the date of the transfer and not when earned by the subsequent service.

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 Consejo Mexicano para la Investigacion y Desarrollo
de Normas de Informacion Financiera (CINIF) (The Mexican
Financial Reporting Standard Board – MFRS)