

17th July 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 **Discussion Paper Leases**. Set forth below you will find our comments to the topics included in the Discussion Paper (DP).

Comments related to topics not considered in the questions

- CINIF considers that the new model is more complex than the previous standard and it will complicate the application of the standards, specially the measurement of the items. Consequently, this new standard will not contribute to the simplification efforts made by IASB in recent years.
- We recommend evaluating the feasibility of the new standards' practical application; we suggest carrying out a field test in order to obtain objective evidence on the impact of the increase in assets and liabilities, the changes in the stock market, the effects on covenants, etc.

Chapter 2: Scope of lease accounting standard

Question 1

The boards tentatively decided to base the scope of the proposed new lease accounting standard on the scope of the existing lease accounting standards. Do you agree with this proposed approach? If you disagree with the proposed approach, please describe how you would define the scope of the proposed new standard.

Yes, we agree with the proposed approach of using the existing scope for lease accounting (IAS 17); however, we believe that leases of investment properties must also be included within the scope of the new standard.

Question 2

Should the proposed new standard exclude non-core asset leases or short-term leases? Please explain why. Please explain how you would define those leases to be excluded from the scope of the proposed new standard.

No. Since there may be non-core asset leases or short-term leases resulting in material assets and liabilities not recognised, we consider that the new standard in order to

attain comparability and recognise all similar transactions in the same manner should include all leases even if they are related to non-core assets or if they are only for short-term leases.

Chapter 3: Approach to lessee accounting

Question 3

Do you agree with the boards' analysis of the rights and obligations, and assets and liabilities arising in a simple lease contract? If you disagree, please explain why.

CINIF has opposed opinions among its members: some CINIF's board members support the new approach of recognising the right of use as an asset and the obligation to pay rentals as a liability; other board members believe that in the case of operating leases it is incorrect to recognise an asset and an obligation because they do not come from a past transaction; they also think that establishing the same treatment for all leases is inadequate because finance and operating leases are not similar transactions. Finally, they believe that the lessor's approach should be addressed at the same time than the lessee's approach because it is important to achieve consistency in the recognition; they are concerned with the way the lessor will derecognise the asset and will recognise the lease income, due to the fact that the asset will be partly recognised in both Statements of Financial Position (for the lessor and the lessee). These board members believe that a preferred approach for operating leases would be to require additional disclosures instead of recognising them.

Question 4

The boards tentatively decided to adopt an approach to lessee accounting that would require the lessee to recognise:

(a) an asset representing its right to use the leased item for the lease term (the right-of-use asset)

(b) a liability for its obligation to pay rentals.

Appendix C describes some possible accounting approaches that were rejected by the boards. Do you support the proposed approach? If you support an alternative approach, please describe the approach and explain why you support it.

As we said before, we have opposed points of view among our board members. See our response to question 3.

Question 5

The boards tentatively decided not to adopt a components approach to lease contracts. Instead, the boards tentatively decided to adopt an approach whereby the lessee recognises:

(a) a single right-of-use asset that includes rights acquired under options

(b) a single obligation to pay rentals that includes obligations arising under contingent rental arrangements and residual value guarantees. Do you support this proposed approach? If not, why?

No, we do not support the proposed approach because we consider it is very complex and it includes a high ingredient of uncertainty.

Chapter 4: Initial measurement

Question 6

Do you agree with the boards' tentative decision to measure the lessee's obligation to pay rentals at the present value of the lease payments discounted using the lessee's incremental borrowing rate? If you disagree, please explain why and describe how you would initially measure the lessee's obligation to pay rentals.

Yes, we agree. We consider that the lessee's incremental borrowing rate is appropriate to measure the lessee's obligation because it is available for the lessee and, thus, the measurement is easier to determine.

Question 7

Do you agree with the boards' tentative decision to initially measure the lessee's right-of-use asset at cost? If you disagree, please explain why and describe how you would initially measure the lessee's right-of-use asset.

We agree with the boards' tentative decision because the cost approach is appropriate and the obligation and the asset are measured at the same value when the transaction is initially recognised in the financial statements.

Chapter 5: Subsequent measurement

Question 8

The boards tentatively decided to adopt an amortised cost-based approach to subsequent measurement of both the obligation to pay rentals and the right-of-use asset. Do you agree with this proposed approach? If you disagree with the boards' proposed approach, please describe the approach to subsequent measurement you would favour and why.

We agree with the adoption of an amortised cost-based approach to subsequent measurement of both the obligation to pay rentals and the right-of-use asset. However, some board members question the difference between the amounts of the asset and the obligation after the first year and they would prefer to establish a procedure that allows to maintain the same value throughout the lease term.

Question 9

Should a new lease accounting standard permit a lessee to elect to measure its obligation to pay rentals at fair value? Please explain your reasons.

No, we consider that allowing the use of different methods leads to a lack of comparability and, additionally, the obligation is a financial liability that must be recognised at amortised cost. Consequently, we believe that the method should be established and be the same for all issuers/ lessees.

Question 10

Should the lessee be required to revise its obligation to pay rentals to reflect changes in its incremental borrowing rate? Please explain your reasons. If the boards decide to require the obligation to pay rentals to be revised for changes in the incremental borrowing rate, should revision be made at each reporting date or only when there is a change in the estimated cash flows? Please explain your reasons.

Yes, we agree. We consider that the incremental borrowing rate should be reassessed at each reporting date or on a yearly basis if reassessment at each reporting date is impracticable. Reassessment is important in order to reflect changes and preserve the

objectivity of the amounts recognised; indeed, we consider these adjustments are more important in long term leases because there is a higher probability of having bigger changes from the rate.

Question 11

In developing their preliminary views the boards decided to specify the required accounting for the obligation to pay rentals. An alternative approach would have been for the boards to require lessees to account for the obligation to pay rentals in accordance with existing guidance for financial liabilities. Do you agree with the proposed approach taken by the boards? If you disagree, please explain why.

Yes, we agree with the proposed approach because we consider it is more practical to have all the requirements related with leases in the leases' standard. However, as mentioned in the question 3, some board members do not agree with the proposed approach to recognise operating leases.

Question 12

Some board members think that for some leases the decrease in value of the right-of-use asset should be described as rental expense rather than amortization or depreciation in the income statement. Would you support this approach? If so, for which leases? Please explain your reasons.

Some board members believe that in all leases the right of use corresponds to an intangible asset; therefore, the expense recognised in profit or loss must correspond to amortisation plus the interest expense. Other board members believe that the decrease in value of the asset must be recognised as rental expense in the income statement because labelling the expense as amortisation will not clearly reveal its real nature.

Chapter 6: Leases with options

Question 13

The boards tentatively decided that the lessee should recognise an obligation to pay rentals for a specified lease term, ie in a 10-year lease with an option to extend for five years; the lessee must decide whether its liability is an obligation to pay 10 or 15 years of rentals. The boards tentatively decided that the lease term should be the most likely lease term. Do you support the proposed approach? If you disagree with the proposed approach, please describe what alternative approach you would support and why.

As we mentioned before, we do not believe that options should be included in the obligation. However, if the boards decide to include them, we think that an approach where uncertainty is addressed through measurement better reflects the value of the obligation to pay rentals because it includes the fact that the entity has an option to extend the lease term and considers the probabilities associated with the exercise of the options.

Notwithstanding the above some CINIF's board members believe that a more practical approach would be to limit the computation of the liability and the right of use to a limited term, say 10 years of rentals, and the remainder years, if any, be disclosed in the footnotes to the financial statements.

Question 14

The boards tentatively decided to require reassessment of the lease term at each reporting date on the basis of any new facts or circumstances. Changes in the obligation to pay rentals arising from a reassessment of the lease term should be recognised as an adjustment to the carrying amount of the right-of-use asset. Do you

support the proposed approach? If you disagree with the proposed approach, please describe what alternative approach you would support and why. Would requiring reassessment of the lease term provide users of financial statements with more relevant information? Please explain why.

Yes, we consider that reassessment is appropriate in order to provide more relevant information but we consider that the reassessment should be made each time that a change derived from circumstances. Additionally, we agree with the recognition of the adjustments in the carrying amount of the right of use asset.

Question 15

The boards tentatively concluded that purchase options should be accounted for in the same way as options to extend or terminate the lease. Do you agree with the proposed approach? If you disagree with the proposed approach, please describe what alternative approach you would support and why.

Yes, we agree with the proposed approach; we consider that all purchase options should be treated in a similar way than other options in order to avoid inconsistencies.

Chapter 7: Contingent rentals and residual value guarantees

Contingent rentals

Question 16

The boards propose that the lessee's obligation to pay rentals should include amounts payable under contingent rental arrangements. Do you support the proposed approach? If you disagree with the proposed approach, what alternative approach would you recommend and why?

We support the proposed approach for cases where the uncertainty is related to the amount, because the event is likely to occur and only the amount requires to be adjusted. However, we believe that regarding those contingencies whose existence depends on future events such as a contract where an additional amount would be paid if inflation exceeds a certain percentage, the contingency should be recognised according to its probability of occurrence and, therefore, the amount recognised would be very small in case the probability is remote.

Question 17

The IASB tentatively decided that the measurement of the lessee's obligation to pay rentals should include a probability-weighted estimate of contingent rentals payable. The FASB tentatively decided that a lessee should measure contingent rentals on the basis of the most likely rental payment. A lessee would determine the most likely amount by considering the range of possible outcomes. However, this measure would not necessarily equal the probability-weighted sum of the possible outcomes. Which of these approaches to measuring the lessee's obligation to pay rentals do you support? Please explain your reasons.

We support the probability-weighted estimate of contingent rentals payable because we consider that including the possible different outcomes and their probabilities better reflects the uncertainty related to the contingency even though the determination does not represent an exact amount to be paid. We consider that the Board needs to be consistent in the methods chosen because in question 13 the Board tentatively decided to choose the most likely outcome.

Question 18

The FASB tentatively decided that if lease rentals are contingent on changes in an index or rate, such as the consumer price index or the prime interest rate, the lessee should measure the obligation to pay rentals using the index or rate existing at the inception of the lease. Do you support the proposed approach? Please explain your reasons.

Yes, we consider that at the initial recognition the lease obligation should be determined with the existing indexes or rates and in the subsequent measurement the adjustments due to changes should be also recognised.

Question 19

The boards tentatively decided to require remeasurement of the lessee's obligation to pay rentals for changes in estimated contingent rental payments. Do you support the proposed approach? If not, please explain why.

Yes, we support this approach because many leases are established for a long term and; therefore, they are subject to substantial changes in the amounts to pay and in order to present objective information the financial statements require to be adjusted whenever the entity obtains more precise information. We suggest considering the provisions established in IFRIC 1 paragraph 5 b) when determining the adjustment.

Question 20

The boards discussed two possible approaches to recognising all changes in the lessee's obligation to pay rentals arising from changes in estimated contingent rental payments:

(a) recognise any change in the liability in profit or loss

(b) recognise any change in the liability as an adjustment to the carrying amount of the right-of-use asset.

Which of these two approaches do you support? Please explain your reasons. If you support neither approach, please describe any alternative approach you would prefer and why.

We support the approach proposed by the IASB (approach b). We consider that the second approach is more appropriate because especially in long term leases the conditions that cause changes in the obligation are prone to change many times and since initial recognition the asset is measured according to the obligation. As we mentioned before, we suggest considering the provisions established in IFRIC 1 paragraph 5 b) when determining the adjustment.

Residual value guarantees**Question 21**

The boards tentatively decided that the recognition and measurement requirements for contingent rentals and residual value guarantees should be the same. In particular, the boards tentatively decided not to require residual value guarantees to be separated from the lease contract and accounted for as derivatives. Do you agree with the proposed approach? If not, what alternative approach would you recommend and why?

Yes, we agree. We consider that contingent rentals and residual value guarantees should be measured with the same provisions.

Chapter 8: Presentation

Question 22

Should the lessee's obligation to pay rentals be presented separately in the statement of financial position? Please explain your reasons. What additional information would separate presentation provide?

We agree with FASB's proposal; we think it is important to present separately the obligation to pay rentals.

Question 23

This chapter describes three approaches to presentation of the right-of-use asset in the statement of financial position. How should the right-of-use asset be presented in the statement of financial position? Please explain your reasons. What additional disclosures (if any) do you think are necessary under each of the approaches?

We consider that the right of use recognised in the statement of financial position corresponds to an intangible asset because the lessee has not the right to dispose of the asset but just to use it.

In addition, we believe that the interest presented in the cash flow statement must be classified as a financing activity, in order to achieve the same presentation than the principal payment.

We think that it is very important to disclose the type of lease (financial or operating), the type of leased asset and the method used to calculate the amounts.

Chapter 9: Other lessee issues

Question 24

Are there any lessee issues not described in this discussion paper that should be addressed in this project? Please describe those issues.

Yes, we think it is important to consider if it is correct that the amount of the leased asset does not correspond to the market value in the case of financial leases.

Chapter 10: Lessor accounting

Question 25

Do you think that a lessor's right to receive rentals under a lease meets the definition of an asset? Please explain your reasons.

We have opposed points of view as we explained in the lessees section.

Question 26

This chapter describes two possible approaches to lessor accounting under a right-of-use model:

(a) derecognition of the leased item by the lessor or

(b) recognition of a performance obligation by the lessor.

Which of these two approaches do you support? Please explain your reasons.

Some board members support derecognition of the leased item by the lessor because otherwise the leased asset would be recognised in both statements (from the lessor and the lessee). However, other board members believe that the recognition of a performance obligation is more appropriate because the lessor continues being the

owner of the asset; thus, the asset must remain recognised in its statement of financial position, especially if these are investment properties.

Question 27

Should the boards explore when it would be appropriate for a lessor to recognise income at the inception of the lease? Please explain your reasons.

Yes, we believe that it is very important to avoid the recognition of income in advance and to preserve consistency between standards. We consider it is important to count with more information before giving our opinion regarding income recognition.

Question 28

Should accounting for investment properties be included within the scope of any proposed new standard on lessor accounting? Please explain your reasons.

Yes, we believe as we said before in the question related to the scope of the lessee's standard, that for both lessee and lessor investment properties leased should be treated as any other lease arrangement. We are concerned if the property is derecognised it will not longer be in investment property even if the lessor has title to the property.

We consider it is important to achieve consistency through the preparation of a standard including lessor accounting in order to attain one complete document on the topic.

Question 29

Are there any lessor accounting issues not described in this discussion paper that the boards should consider? Please describe those issues.

Yes, we believe it is important to address the measurement and impairment of the receivable considering the obligation of the lessee, including options, contingent rentals and residual value guarantees, which it is going to complicate the computation.

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)
Mexican Financial Reporting Standards Board