

9 January 2008

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 our comments on the *Exposure Draft (ED) of Proposed Improvements to International Financial Reporting Standards - First Annual Improvements Project*.

Question 1

We concur with the Board's proposal for restructuring of IFRS 1. However, we have the following comments and proposals of amendments:

1. In our opinion paragraph 6 of IFRS 1 should be amended to clearly state that when comparative financial statements are presented the *opening IFRS statement of financial position* at the *date of transition to IFRSs* must be the statement of financial position at the end of the period preceding the oldest period presented. The suggested amendment to paragraph 6 is in line with the example included in paragraph 8 of the proposed IFRS 1.
2. The last paragraph of the example included in paragraph 8 is confusing: it states: "...entity A is permitted, but not required, to apply that IFRS in its first IFRS financial statements". In order to have a clear example, we believe that the mentioned paragraph should be amended to state that in the case of the example the entity's *first IFRS financial statements* are those at 31 December 20X3.
3. Paragraph 13 of the proposed IFRS 1 states "...These exceptions are contained in paragraphs 14-17..." However these paragraphs do not refer to exceptions but to **Estimates**.
4. Paragraph 15 should state that the effects of a change in **estimate** is recognized prospectively by including it in the year of the change and future periods as required by paragraph 36 of IAS 8.
5. Paragraph 17 of the proposed IFRS1 states "...in which case the references to the date of transition to IFRSs are replaced by references to the end of that comparative period..." We believe that this sentence should state that the references to the date of transition to IFRSs are replaced by references to the **beginning** of that comparative period. If such references are replaced by references at the end of the comparative period then the example included in paragraph 8 is incorrect.

6. In paragraph B5 the word *under* should be eliminated from the sentence that states: "... However, if an entity designated a net position as a hedged item *under* in accordance with..."
7. A more comprehensive and easier to read document would be attained if Appendixes B, C and D were incorporated to the text of the document.

Question 2

We are in agreement with the proposal to add paragraph 8A to IFRS 5 to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary.

Question 3

We do agree that interest income should not be included as a component of finance costs and that finance costs and finance revenue should be disclosed separately when the net total is included in the statement of comprehensive income.

However the change proposed to paragraph IG13 of IFRS 7 *Financial Instruments: Disclosures*, deals only with financial costs, when paragraph 82(b) of IAS 1 *Presentation of Financial Statements*, deals both with financial revenue and financial cost. Also the title of paragraph IG13 addresses both Total interest income and total interest expense. As revised, paragraph IG13 deals only with interest expense, therefore, both the title of this paragraph and the reference to paragraph 83(B) should be modified in order to only deal with interest expense.

Also, even if not addressed in Question 3, we do agree with the change in paragraph 3, of IFRS 7, as far as the requirements of IFRS 7 include the disclosure requirements that IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* or IAS 31 *Interest in Joint Ventures* establish when an entity accounts for an interest in a subsidiary, associate or joint venture in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

Question 4

1. We fully concur with the position and comments of Messrs. Leisenring and McGregor included in paragraphs AV2 and AV3. We agree with them that the objective of including the requirement is unlikely to be attained; if an entity has failed to comply with other IFRSs requirements there is no reason to believe that such entity will disclose that it has failed to meet the new disclosure requirement.
2. If not withstanding our position expressed in the preceding paragraph 1, paragraph 16A of the proposed amendments prevails, subparagraphs (a) and (b) should be amended to include in both subparagraphs after *describe*: **but not quantify** as it is stated in paragraph BC3.

Question 5

We are in agreement with the proposal to clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current.

Question 6

We agree with the proposal to amend the examples in paragraphs 68 and 71 of IAS 1 to remove the potential implication that financial assets and financial liabilities that are classified as held for trading in accordance with IAS 39 are required to be presented at current.

Question 7

We do agree with the proposal to amend paragraphs 7, 9 and 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, to clarify the status of the implementation guidance, indicating that it is not mandatory but is intended to assist entities in applying IFRS.

Question 8

We concur with the proposal to amend paragraph 13 of IAS 10 to clarify why a dividend declared after the reporting period does not result in the recognition of a liability at the end of the reporting period.

Question 9

We do agree that the definition of recoverable amount in IAS 16 *Property, Plant and Equipment* be amended to remove the perceived inconsistency with “recoverable amount” used in other IFRSs.

Question 10

We do agree with the proposal to amend paragraph 68 of IAS 16, adding paragraph 68A and with the consequential amendment of paragraph 14 of IAS 7 *Cash Flow Statements*.

Question 11

We do agree that the specific classification guidance for land and buildings included in paragraphs 14 and 15 of IAS 17 *Leases* is not needed, as far as the principle establishing when a lease has to be classified as a financial lease or an operating lease is clearly stated in paragraphs 8 to 13 of IAS 17.

Paragraphs 14 and 15 include criteria that were already stated before and raise concerns regarding the applicability of the general criteria to land and buildings, as if the general criteria established in prior paragraphs did not apply in these cases. This is a clear change to principle based standards that we support, rather than having several detailed rules that can be contradictory.

Question 12

We do agree that contingent rents relating to an operating lease should be recognized as incurred. We do not understand why in the case of an operating lease the contingent rents should be estimated at inception of the lease if those rents are precisely contingent in attaining certain results, such as a level of sales. As this is uncertain in many cases it would be misleading to make an estimate of the rental expense if an estimate of the contingency is included in the rental expense.

We do also agree that the contingent rent income should be recognized as earned, since we believe it is not proper to recognize projected revenue on a straight line basis that would include a contingent portion based on future performance.

We do agree that the same principle should apply to financial rents that include a contingent rent.

Question 13

We do agree with the proposed amendment to the guidance on IAS 18 to explain that the definition of the transaction costs to be applied to the accounting for financial assets origination fees are those defined in IAS 39.

Question 14 (a)

We concur that IAS 19 should be amended to clarify that when a plan amendment reduces benefits for future service, the reduction relating to future services is a curtailment and any reduction to past service is negative past service cost.

Question 14 (b)

We agree that the sentence referred to in this question should be eliminated from paragraph 111 of IAS 19.

Question 15

We do agree with the proposal to amend the definition of return of plan assets in paragraph 7 of IAS 19 to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation.

Question 16

We agree with the proposal to replace the term “fall due” in IAS 19 with the notion of employee entitlement in the definitions of short term employee benefits and other long term employee benefits.

Question 17

We agree that the reference to recognizing contingent liabilities be removed from paragraph 32B of IAS 19.

Question 18

We do agree to the proposed amendments to paragraphs 2, 12-18, 20-22, 26,27, 32 and 37, as well with the additions of paragraphs 10A and 42 of IAS 20 *Government Grants and Disclosure of Government Assistance*, that conform the terminology used in IAS 20 to the equivalent or more widely used terms in other standards. We do also agree with the consequential amendments to paragraphs 34-36 of IAS 41 *Agriculture*.

Question 19

We do agree with the proposed amendment to IAS 20 to clarify that the benefit of a loan received from the government with a below-market rate of interest should be quantified by the imputation of interest in accordance with IAS 39.

Question 20

We do agree with the proposed amendment of paragraph 6 of IAS 23 *Borrowing Costs* to refer to the guidance in IAS 39 relating to effective interest rate when describing the component of borrowing costs.

Question 21

We believe that the entire accounting of investments in separate financial statements of the parent should be revised and that investments in subsidiaries, jointly controlled entities and associates should be accounted under the equity method and not at cost. If there is a legal requirement in some countries to recognize such investments at cost, we believe that this should be allowed by IFRSs because form should not prevail over substance.

We do not see why in the case of consolidated financial statements an investment in an associate may be accounted under the equity method and in the separate financial statements of the parent such investment is recorded at cost. This is also applicable in the separate financial statements of the parent to the investments in subsidiaries and jointly controlled entities, unless the equity method cannot be reliably applied.

We believe that equity should be measured in the same way for both separate and consolidated financial statements and do not see why consolidated and separate financial statements should measure investments in associates in a different way.

Regarding the proposal to require investments in subsidiaries that are accounted for in accordance with IAS 39 in the parent's financial statements to continue to be accounted for on that basis when classified as held for sale, we do believe that it should be the only case when these investments should be carried at fair value less costs for sale, as permitted by IAS 39, since at that moment it is no longer a permanent investment but a financial instrument.

The proposal only addresses that IFRS 5 *Non Current Assets Held for Sale and Discontinued Operations*, be applied when an investment carried at cost is classified as

held for sale. We agree with this proposal, since it clarifies that, on the other hand, investments that are in essence a financial instrument should follow IAS 39.

We recommend that the issues discussed above be considered in the forthcoming changes to the standard of consolidated financial statements and to the future changes to the standard on measurement of financial instruments.

Question 22

We do not agree with the proposal to clarify in IAS 28 *Investments in Associates* the disclosures that an investor in an associate that accounts for its interest in the associate at fair value in accordance with IAS 39, with changes in fair value recognized in profit or loss, as far as disclosures on financial instruments are to be dealt in IFRS 7 *Financial Instruments: Disclosures*. This is because whenever an interest in an investment is recognized at fair value in accordance with IAS 39, it is not a normal investment in an associate but rather a financial instrument.

Paragraph 1 of IAS 28 excludes from the scope of this IAS those investments made by a) venture capital organizations and b) mutual funds, unit trusts and similar entities including investment linked insurance funds, because these are not permanent in nature and are assimilated to financial instruments. Therefore if these instruments are excluded in such paragraph, indicating that IAS 39 should be used to measure the investment, it is because these are considered similar to a financial instrument and the disclosure standards should be included in IFRS 7 and not in the standard that excludes them of its scope.

However we do agree that such disclosure is needed.

Question 23

We do not agree with the proposal to amend paragraph 33 of IAS 28 to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed.

The proposed change indicates that the impairment loss should not be allocated to the goodwill and other assets included in the investment. We disagree with this position since determining the amount paid for goodwill can be made and therefore is subject to the standard indicated in paragraph 104 of IAS 36 *Impairment of Assets*; this should be the first item to which the impairment is applied. An associate is similar to a cash generating unit to which goodwill has been allocated as described in paragraph 90 of IAS 36. Therefore we do believe that the proposal is inconsistent with the spirit of IAS 36 and would create a conflict between IAS 28 and IAS 36.

In addition the proposal establishes that if the investment in an associate is considered as a single amount, an impairment loss related to the goodwill would be reversed. However, as described in paragraph 124 of IAS 36, an impairment loss related to goodwill should not be reversed in any subsequent period. Therefore if a distinction of the amount of goodwill was not made when allocating the impairment, the portion of such impairment related to the goodwill will be restated, which is contrary to the standard indicated above.

Question 24

We do agree with the proposal to update the description of historical cost financial statements in paragraph 6 of IAS 29 *Financial Reporting in Hyperinflationary Economies* and to conform terminology in IAS 29 to the equivalent defined or more widely used terms.

Question 25

We do not agree with the proposal to clarify in IAS 31 *Interests in Joint Ventures* the disclosures required of a venturer in a jointly controlled entity that accounts for its interest in the jointly controlled entity at fair value in accordance with IAS 39, with changes in fair value recognized in profit or loss, as far as disclosures on financial instruments are to be dealt in IFRS 7 *Financial Instruments: Disclosures*. This is because whenever an interest in an investment is recognized at fair value in accordance with IAS 39, it is no longer a normal investment in an associate but rather a financial instrument.

Paragraph 1 of IAS 31 excludes from the scope of this IAS those investments made by a) venture capital organizations and b) mutual funds, unit trusts and similar entities including investment linked insurance funds, because these are not permanent in nature and are assimilated to financial instruments. Therefore if these instruments are excluded in such paragraph, indicating that IAS 39 should be used to measure the investment, it is because these are considered similar to a financial instrument and thus, the disclosure standards should be included in IFRS 7 and not in the standard that excludes them of its scope.

In addition paragraph 56 focuses mainly in disclosures of investments in joint ventures that are recognized using proportionate consolidation and no reference is made in this paragraph to the disclosures required for those investments that are recognized at fair value through profit and loss, following the requirements of IAS 39. Therefore, except for the first two lines of paragraph 56, the remaining disclosures do not apply to the instruments that paragraph 1 of IAS 31 indicates are out of the scope of this IAS..

We do agree that the consequential modification of paragraph 4 of IAS 32 *Financial Instruments: Presentation* is required, as no reference to disclosure requirements should be made to standards that do not deal with financial instruments, as disclosures on financial instruments are contained in IFRS 7.

Question 26

We do agree with the proposal to amend paragraph 11 of IAS 34 *Interim Financial Reporting* to require the presentation of basic and diluted earnings per share only when the entity is within the scope of IAS 33 *Earnings per share*. Otherwise it could be interpreted that a non-public entity must also present such information, which would be useless.

Question 27

We do agree with the proposal to amend paragraph 134(e) of IAS 36 *Impairment of Assets* to require the same disclosures to be given for fair value less costs to sell as are required for value in use when discounted cash flows are used to calculate fair value less costs to sell.

Question 28 (a)

We do agree that IAS 38 *Intangible Assets* should emphasize that an entity should recognize expenditure on an intangible item as an expense when it has access to the goods or has received the related services.

Question 28 (b)

Accordingly we also agree that paragraph 70 of IAS 38 should be amended to allow an entity to recognize a prepayment only until it has access to the related goods or has received the related services.

Question 29

We do agree with the proposal to remove the last sentence of paragraph 98 of IAS 38 regarding the amortization method used for intangible assets.

Question 30

We do agree with the proposal to amend IAS 39 by removing from the definition of a derivative the exclusion relating to contracts linked to non-financial variables that are specific to a party in the contract. A derivative affects in opposite direction the two parties of a contract; therefore it makes no sense to have a contract where the non-financial variables affect only one of the parties. We understand this was included since there was a need to exclude insurance contracts, where the non-financial risk is on one side of the contract; however this is now covered by IFRS 4, *Insurance Contracts*.

Question 31 (a)

We do agree with the proposal to clarify definition of a financial instrument classified as held for trading indicating in section (ii) that the classification is based on initial recognition if an instrument is part of a portfolio this makes this definition consistent with paragraph 50 of IAS 39 that indicates that an entity shall not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued.

Question 31 (b)

We do agree with the proposal to insert in IAS 39 paragraph 50A to clarify the changes in circumstances that are not reclassifications into or out of the fair value through profit and loss category, as far as these are limited to such circumstances in which an instrument is designated as an effective hedging instrument and goes out of the fair value through profit and loss category or no longer qualifies as an effective hedging and goes back into such category.

Question 32

We do not agree with the proposal to amend paragraph 73 of IAS 39 to remove the references to segments or segment reporting. The basis for conclusion indicate there appear to be a conflict between this paragraph and IFRS 8, *Operating Segments*, that requires disclosure of information that is reported to the chief operating decision maker even if this is on a non-IFRS basis. We do not see the conflict. For example a conglomerate may have several segments, such as industrial, trading or financial segments, and the trading segment may contract a derivative with the financial segment. If any of these segments is reported on separately, the financial instrument from the other segment that qualifies as an effective hedge is a valid hedging instrument at the level of that segment, that is being reported on separately.

We believe that even in segment reporting the effect of transactions between segments "...shall be included in determining reported segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker." as indicated in paragraph 25 of IFRS 8. Therefore if the segment financial information is being reported on separately, instruments contracted with other segments that do qualify for hedging should be reported as if contracted with a third party, with the required disclosure of related party transactions.

Question 33

We do agree with the proposal to amend paragraph AG8 of IAS 39 to clarify that the revised effective interest rate calculated in accordance with paragraph 92 should be used, when applicable, to remeasure the financial instrument in accordance with paragraph AG8. Without this amendment the guidance in such paragraph would be incomplete and the information disclosed could misguide the reader.

Question 34

We do agree with the proposal to amend paragraph AG30 (g) of IAS 39 to clarify that prepayments options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, as described in paragraph AG33 (a), are closely related to the host debt contract, and therefore are not required to be segregated. This is clear as the option can only be exercised in relation to the host debt contract.

Question 35

We do agree that property under construction or development for future use as an investment property should be considered as such within the scope of IAS 40 *Investment Property*. However we suggest that the text of the amending paragraph include that "...and the entity has the intention and ability to use the property for such purpose." This is to ensure that the classification as investment property has a sound basis.

We notice that paragraph 9(b) is deleted, however the latter part refers to property that is redeveloped for continued use as an investment property. We suggest that paragraph 8(e) includes the portion of the deleted paragraph 9(d) related to property being redeveloped.

Question 36

We do agree that as a consequence of the changes to paragraphs 8 and 9 of IAS 40, paragraph 31 of IAS 40 should be modified to conform to the terminology used in IAS 8.

Question 37

We do agree that paragraph 50(d) of IAS 40 be amended to clarify the accounting for investment property held under a lease, since what is being determined is the carrying amount of the property, using the fair value, not the fair value itself.

Question 38

We do agree with the proposal to change the terms “point-of-sale costs” and “estimated point-of-sale costs” in IAS 41 *Agriculture* and IAS 7 *Inventories* with “costs to sell”. We believe that “costs to sell” define better the expenditures related to the effort of selling the inventory, when it is ready for sale.

Question 39

We do agree with the proposed amendment to IAS 41 to permit either a pre-tax or a post-tax discount rate to be used according to the valuation methodology used in determining fair value. However we suggest that “according to the methodology used” be added at the end of paragraph 20.

Question 40

We do agree with the proposal to remove the exclusion of “additional biological transformation” from paragraph 21 of IAS 41, as far as at the beginning of such paragraph refers to the biological asset in its “...present location and condition.”

Question 41

We do agree with the proposed amendments to the examples in paragraph 4 of IAS 41.

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 Mexican Accounting Standards Board
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