

10 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, A.C. (CINIF), the accounting standards setting body in México, welcomes the opportunity to submit our comments on the exposure draft of proposed Amendments to IAS 39 Financial Instruments Recognition and Measurement, that addresses “Exposures qualifying for hedge accounting”.

Our comments on the questions you raise are the following:

Question 1 – Specifying the qualifying risks. Question 2 – Specifying when an entity can designate a portion of the cash flows of a financial instrument as a hedged item.

The IASB has stated that its approach for developing financial reporting standards is directed to principles rather than to rules. Therefore, due to the approach proposed in the exposure draft, we believe that the IASB is going in the opposite direction it should go by trying to be so specific when identifying the risks qualifying for designation or when an entity can designate a portion of the cash flows of a financial instrument as a hedged item. Being specific has been the way of setting standards of the FASB and these standards have been criticized of being a set of rules rather than clear principles.

BC2 indicates that “Rather than dealing with these requests individually, the IFRIC attempted to develop a principle that could be used as guidance on what IAS 39 permits to be designated as a hedged item. However, the IFRIC was unable to develop such a principle. Consequently, the IFRIC asked the Board for guidance on how to address the issue.” As a principle was not developed, BC6 indicates “The Board concluded that specifying eligible risks would help clarify the Board’s original intentions regarding what can be designated as a hedged item”.

We do not understand how the IFRIC concluded that it is not possible to develop a principle and then decide to propose a set of rules. This is contrary to the objectives of the IASB to issue standards with clear principles instead of rules.

Therefore, we disagree with these conclusions since paragraph 81, which is being replaced by two long and specific paragraphs, included the principle when it indicated “...provided that effectiveness can be measured”. Effectiveness is one of the cornerstones on which hedge accounting is built. Paragraph 81 stated very well the principle when it indicated “If the hedged item is a financial asset or a financial liability, it may be a hedged item with respect to the risks associated with only a portion of its cash flows or fair value (such as one or more selected contractual cash flows or portions of them or a percentage of their fair value) **provided that effectiveness can be measured**. For example...” We are highlighting that part of paragraph 81, that we believe should be retained rather than being replaced by paragraphs 80Y and 80Z.

We believe that “effectiveness of a hedging instrument that is highly correlated to the risk being hedged” is the characteristic that market participants consider as the key for an instrument to hedge a risk and therefore the principle should be based on this characteristic.

By keeping the principle stated in paragraph 81, modified by the “Highly correlation” factor and adding the new two paragraphs as examples, not as rules, the objective would be attained, without departing from principles based standards that should prevail.

Other issues included in question 1 and 2 were if there are any other risks that should be included in the list or other situations in which an entity should be permitted to designate a portion of the cash flows of a financial instruments as a hedged item. At this moment we do not identify any, but the world of financial instruments is so dynamic that we believe there should be more in a short or medium term. This is, in our opinion, the main reason to avoid rules, as human nature is made in such a way that whenever a new rule is issued, a new detour is built. This has been the endless task of a rule setting body as the FASB.

Question 3 – Effects of the proposed amendments on existing practice.

If the principle is maintained and examples are added the effects will be minimal, since these will be limited to those cases where the example will clearly indicate that a practice being followed was wrong, this is when effectiveness of a highly correlated instrument was not properly measured.

Question 4 – Transition.

The requirement to apply the effects of the examples we propose to be included in paragraphs 81A and 81B retrospectively is the appropriate in the circumstances, since if the principle was applied differently, (ie. effectiveness was not properly measured) there is an error to be corrected.

Accounting for financial instruments and hedge accounting is very complex. We believe that the best way to cope with this very difficult task is by setting clear principles, since if rules are set instead of principles, we will fall into the trap of a very complex and endless task.

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](mailto:fperezcervantes@cinif.org.mx)

Sincerely,

C.P.C. Felipe Perez Cervantes  
President of the Mexican Accounting Standards Board  
Consejo Mexicano para la Investigacion y Desarrollo  
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