Buenos Aires, September 16th, 2002

Chairman
International Accounting Standards Board
Sir David Tweedie

Dear Sirs,

Kindly find enclosed hereto the comments elaborated by the Scientific And Technical Study Centre (CECyT) on the proposed amendments to the International Accounting Standards which constitutes a main step in our joint work.

For your better information, please note that it is through the CECyT that our Federation (FACPCE, Argentine Federation of Professional Councils on Economics) is committed to consider, study and prepare exposure drafts and is, therefore, in charge of the issuance of professional standards of compulsory application by each one of the twenty-three Argentine Professional Council adhered to this Institution.

CECyT has been involved in this field for the last 30 years and has led the harmonization process of the IAS since 1997, the first stage of which was concluded in December 2000 by issuing the Technical Resolutions 16 through 19 that are consistent with the IAS.

Since June, CECyT has been an active part in the process of this labour which is developed in four Work Commissions where more than 15 professionals provide their expertise and knowledge in accounting subjects.

Hoping our comments be of use, we remain at your disposal should you require further assistance.

Yours faithfully,

Oscar Gerardo Maciel
Secretary

Luis Jorge Garzarón
Chairman

IAS 1
Presentation of Financial Statements

Question 1
Do you agree with the proposed approach regarding departure from a requirement of an International Financial Reporting Standard or an Interpretation of an International Financial Reporting Standard to achieve a fair presentation (see proposed paragraphs 13-16)?

Answer:

Yes, we do. It should be emphasized that departure from a requirement of said Standards/Interpretations must occur only in "extremely rare circumstances" .

Question 2
Do you agree with prohibiting the presentation of items of income and expense as 'extraordinary items' in the income statement and the notes (see proposed paragraphs 78 and 79)?

Answer:

Yes, we do. However, the presentation of items of incomes and expenses as extraordinary items could be accepted when events bear the following features:
- *unusual nature*
- *infrequency*
- *independency from management decisions*

Question 3
Do you agree that a long-term financial liability due to be settled within twelve months of the balance sheet date should be classified as a current liability, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue (see proposed paragraph 60)?

Answer:

No, we do not agree. We think it would be more adequate that:

A financial liability due within twelve months should not be classified as current when, and only when, the entity has the intention to refinance it for a term not less than 12 months and the entity proves the positive ability to complete the refinancing (for more than 12 months) as follows:

- *After the end of the financial year, but before the issuance of the financial statements, the entity issues a long-term financial liability directly linked to the financial liability that, otherwise, would have been classified as short-term. (i.e. it is not the "replacement" of a short-term liability "x" for a long-term liability "z", but the long-term "refinancing" of an existing short-term liability.*

- *Before the issuance of the financial statements, the entity enters into an agreement that allows it to refinance the financial liability, due within 12 months, for more than 12 months, in accordance to positive provisions and if the following conditions are met:*

1. *The agreement is not due before the end of the financial year and the creditor has no possibility to extinguish the agreement during that period, except for breaches of whichever "covenant", the fulfilment of which can be objectively measured.*
2. *There is no breach of this "covenant" at the date of the financial statements or prior to its issuance; but if a breach took place, a legal release from the creditor would be obtained before the date of the financial statements.*
3. *The creditor has the proved ability to comply with the agreement.*

Question 4
Do you agree that:
(a) a long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date, even if the lender has agreed after the balance sheet date, and before the financial statements are authorised for issue, not to demand payment as a consequence of the breach (see proposed paragraph 62)?

(b) if a lender was entitled to demand immediate repayment of a loan because the entity breached a condition of its loan agreement, but agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during that time the lender EXPOSURE DRAFT OF REVISED IAS 1 cannot demand immediate repayment, the liability is classified as non-current if it is due for settlement, without that breach of the loan agreement, at least twelve months after the balance sheet date and:
(i) the entity rectifies the breach within the period of grace; or
(ii) when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified (see proposed paragraphs 63 and 64)?

Answer:

Paragraph (a): No, we do not agree. It should be classified as non current.

Paragraph (b): Yes, we agree.

Question 5
Do you agree that an entity should disclose the judgements made by management in applying the accounting policies that have the most significant effect on the amounts of items recognised in the financial statements (see proposed paragraphs 108 and 109)?

<u>Answer</u>

Yes, we agree. The financial information should be broaden for the benefit of users of financial statements'.

Question 6
Do you agree that an entity should disclose key assumptions about the future, and other sources of measurement uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year (see proposed paragraphs 110-115)?

<u>Answer:</u>

Yes, we agree. Although it is more likely that the entities will apply the alternative referred to in paragraph 114, because it is more simple, easier and requires less effort, including a note to the financial statements as follows:

"The preparation of financial statements under the professional accounting standards effective in Argentina requires the Directive Board and the Management of an entity to make estimations that affect the calculation of the amounts of assets and liabilities, and the disclosure of contingencies existing at the date of the issuance of the financial statements. Factual results and amounts can differ from the estimations made for the preparation of the financial statements."

IAS 2
Inventories

The following are our comments about the proposed amendments to the existing standard:

General comments:

a) *In our opinion, the most relevant change introduced by the improvement project to the referred standard is the elimination of the option to apply other valuation method than historical cost. Result surprising to us that this important change hasn't been included in the Summary of Main Changes and no question has been made about the issue.*
b) *We strongly support the intention of the IASB to eliminate the existence of alternatives, resulting in inconsistent application of the standard by different entities.*
c) *According to our experience, result of more than a decade of application of fair value concepts to the valuation of assets, we are sure that the best valuation method to apply to inventories (included in the scope of the standard) is the "current replacement cost".*
d) *According to the IASB Framework, the main objective of the financial statements is to provide to the user of the financial statement information useful to assess the ability of the reporting entities to generate cash or cash equivalents and the needs to utilise those cash flows.*
e) *As information about the financial position is primarily provided in the Balance sheet, the use of the proposed method provide to the users more precise and useful information about the resources available. The use of current replacement cost doesn't means in any way that "unrealised gains" are being recognised.*
f) *Of course that the same concept have to be applied to the valuation of cost of sales to be consistent with the related asset measurement. In this case there is no doubt for us that the accounting concept suggested is closer to the economic concept used for the entities in adopting economic decisions. The margin on sales determined using the proposed method is without doubt the most efficient way of determining the capacity of the entity to generate income trough transactions and to estimate the future cash flows to be generated.*
g) *We know that the use of historical cost is a widely extended practice, and in our opinion is an acceptable alternative under stable economic conditions, when the difference between both methods usually is immaterial. Under conditions of significant changes in relative prices of goods and services, the use of historical cost (even restated under IAS 29) doesn't provide useful information.*
h) *Our "benchmark" proposal about the subject is to adopt "current replacement cost" as the only applicable method to the valuation of inventories (included in the scope of IAS 2), accepting historical cost only in the case of immaterial difference resulting of the application. We are aware that the adoption of the proposed standard will imply a huge change in relationship with accounting practices extensively used, and we think that accepting both options during a certain time will permit the entities to establish a close relationship with the use of fair value in measuring it's assets and costs. Then will be the moment to adopt only one fair value concept in measuring inventories.*
i) *Our opinion is that the "Framework for the preparation and Presentation of Financial Statements" have to include the definition of an "accounting model" with no options for one accounting concept.*

The following are our answers to the questions included in the Invitation to Comment to the IAS 2 Improvement Project.

Question 1:

Do you agree with eliminating the allowed alternative of using the last-in, first-out (LIFO) method for determining the cost of inventories under paragraphs 23 and 24 of IAS 2?

Answer:

We agree with the elimination of the LIFO option. The use of the mentioned alternative of measurement, gives the false sensation of measuring the costs of inventories consumed or sales at an actual measurement. We *repeat in this case the opinion given previously about the use of Current replacement cost as the only correct option to measure the consumption of inventories at fair value. The LIFO option is a "patch" that partially corrects the deviation in the measurement of costs but increase the deviation in the measurement of the related assets.*

Question 2:
IAS 2 requires reversal of write-downs of inventories when the circumstances that previously caused inventories to be written down below cost no longer exist (paragraph 30). IAS 2 also requires the amount of any reversal of any write-down of inventories to be recognised in profit or loss (paragraph 31).
Do you agree with retaining those requirements?

Answer:
We agree with retaining the option of reversing previously made write-downs of inventories in the mentioned case with effect in the income statement.

IAS 8
Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

Question 1
Do you agree that the allowed alternative treatment should be eliminated for voluntary changes in accounting policies and corrections of errors, meaning that those changes and corrections should be accounted for retrospectively as if the new accounting policy had always been in use or the error had never occurred (see paragraphs 20, 21, 32 and 33)?

Answer:

We do not agree. If a voluntary change or a correction of an error is made, the financial statements, presented comparatively, must be modified.

Question 2
Do you agree with eliminating the distinction between fundamental errors and other material errors (see paragraphs 32 and 33)?

Answer:

Yes

IAS 10
Events After the Balance Sheet Date

There are no questions on these proposed improvements.

IAS 15
Information Reflecting the Effects of Changing Prices

The following are our comments about the proposed amendments to the existing standard:

General comments:
We agree with the withdrawal of the mentioned standard. In our view, proper accounting can't be replaced with disclosure of the differences.
In our opinion, all statements issued in a currency corresponding to a unstable environment have to be restated applying IAS 29.
We have a lot of experience about living and making economic decisions under both environments: stable and high inflation and is very clear for us that economic operators use for their decisions, nominal values in the former and "current" values in the latter.
The information needed for making economic decisions results of the combination of using "current replacement cost" for certain assets and "restated historical cost" for others like PP&E.
Our proposal related to the issue is the extended application of the restatement contemplated in IAS 29 to all the financial statements issued in a currency of a country with unstable economic conditions. The meaning of this concept is where the currency is affected for high inflation.
IAS 29 refers to "Hyperinflation", extreme situation where the use of the local currency practically disappear and almost all the transactions are made in a foreign currency.
In our view, the proper term to be used is "High Inflation", being the conditions to be met very properly described in IAS 29, except the 100% accumulated rate for three years, rate very high in our appreciation to trigger the restatement of the figures.

IAS 16
Property, Plant and Equipment

Question 1

Do you agree that all exchanges of items of **property, plant and equipment** should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (see paragraphs 21 and 21A)?

<u>Answer</u>

NO, we do not agree.

In our opinion, the only measurement criterion that should be admitted for held for use assets, such as property, plant and equipment, is historical cost, which is the same preferred criterion considered in IAS 16. As the existing IAS 16 indicates, the exchange of this type of assets does not, strictly, represent the culmination of an earning process and, as a consequence, when the asset received in exchange is used in the same line of business and in a similar manner than the asset given up, the recognition should be measured at the carrying amount (the existing carrying amount) of the asset given up, including any deduction of impairment that could have been charged to the asset given up before the date of the exchange.
Additionally, when, as part of the exchange of assets, cash or cash equivalents are included, the Standard should include guidance to classify the transaction as monetary or non-monetary (for example, considering the percentage of cash involved in the exchange estimated on the fair value of the asset given up). In this case:

a) if the exchange is classified as a non-monetary transaction, (i) any monetary consideration paid by the entity should be added to the measurement of the asset received upon initial recognition, or (ii) any monetary consideration received by the entity should be recognized as an income if the fair value of the asset given up by the entity can be measured reliably, and only at the amount of the fair value in excess of the carrying amount of the asset given up, while the remains of the consideration received should be considered by subtracting it from the cost of the asset initially recognized upon the exchange;

b) if the exchange is classified as monetary, the same accounting treatment, as defined in the next paragraph for the exchange of assets that will not be used in the same line of business, should be applied.

When the assets exchanged do not have a similar use in the same line of business and the fair value of any of the assets exchanged can be reliably measured, the measurement, upon initial recognition, should be (a) the fair value of the asset given up adjusted, where appropriate, for any amount of cash or cash equivalent included in the transaction or (b) the fair value of the asset received, if it is a more reliable measurement. In these cases, when the fair value of any of the assets exchanged cannot be reliably measured, the initial measurement of the asset received should be the carrying amount of the asset given up.

Question 2

Do you agree that all exchanges of **intangible assets** should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably? (See the amendments in paragraphs 34-34B of IAS 38, Intangible Assets, proposed as a consequence of the proposal described in Question 1.)
(Note that the Board has decided not to amend, at this time, the prohibition in IAS 18, Revenue, on recognising revenue from exchanges or swaps of goods or services of a similar nature and value. The Board will review that policy later in the context of a future project on the Recognition of Revenue.)

<u>Answer:</u>

The same rationale as for question 1 is applied to this question.

Question 3
Do you agree that depreciation of an item of property, plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59)?

Answer:

No, we do not agree.

We disagree with the criterion of the depreciation policy applied to the assets retired from active use and held for disposal (which are not expected to receive an alternative use until its disposal) since this treatment may lead to not reasonable measurements. These assets should be measured at their net realisable value estimated on year-end. If there is no reliable net realisable value, either a depreciation policy could still be applied or the carrying amount could be reduced to nil if there are no reliable bases leading to foresee a recovery. Furthermore, gains should only be recognised when measuring at the net realisable value if (a) said value is agreed by contract or (b) if there is an active market for trading the assets retired from active use and the net realisable value could be calculated on the basis of market transactions close to year-end for similar assets.

We find the proposal of not ceasing with the depreciation policy reasonable in the case of assets temporarily retired from active use. Even though in these cases it should be considered if it is reasonable to maintain unchanged the former depreciation policy specially when this is based on elaborated products or hours of service.

IAS 17
Leases

Question 1
Do you agree that when classifying a lease of land and buildings, the lease should be split into two elements—a lease of land and a lease of buildings?
The land element is generally classified as an operating lease under paragraph 11 of IAS 17, Leases, and the buildings element is classified as an operating or finance lease by applying the conditions in paragraphs 3-10 of IAS 17.

<u>Answer:</u>

Yes

Question 2
Do you agree that when a lesser incurs initial direct costs in negotiating a lease, those costs should be capitalised and allocated over the lease term?
Do you agree that only incremental costs that are directly attributable to the lease transaction should be capitalised in this way and that they should include those internal costs that are incremental and directly attributable?

<u>Answer:</u>

Yes.
But the SFAS 91 is more complete :

Initial direct costs. Only those costs incurred by the lesser that are (a) costs to originate a lease incurred in transactions with independent third parties that (i) result directly from and are essential to acquire that lease and (ii) would not have been incurred had that leasing transaction not occurred and (b) certain costs directly related to specified activities performed by the lesser for that lease. Those activities are: evaluating the prospective lessee's financial condition; evaluating and recording guarantees, collateral, and other security arrangements; negotiating lease terms; preparing and processing lease documents; and closing the transaction. The costs directly related to those activities shall include only that portion of the employees' total compensation and payroll-related fringe benefits directly related to time spent performing those activities for that lease and other costs related to those activities that would not have been incurred but for that lease. Initial direct costs shall not include costs related to activities performed by the lesser for advertising, soliciting potential lessees, servicing existing leases, and other ancillary activities related to establishing and monitoring credit policies, supervision, and administration. Initial direct costs shall not include administrative costs, rent, depreciation, any other occupancy and equipment costs and employees' compensation and fringe benefits related to activities described in the previous sentence, unsuccessful origination efforts, and idle time.

IAS 21
The Effects of Changes in Foreign Exchange Rates

The following are our comments about the proposed amendments to the existing standard:

General comments:

a) *We agree with the general approach of the main changes, especially with the elimination of alternatives, leading to inconsistent application of the standards. In our opinion, the application of the previous alternative to capitalise the losses resulting from severe currency devaluation produce inconsistent valuation of assets, only depending in the structure of the liabilities and the intention of the entity. For valuation of assets, we support the use of "current replacement cost", being in our opinion the best accounting solution to produce meaningful information in the mentioned context.*
b) *We support the free choice of all the currencies they need for the entities participating in the global markets. Especially because the use of a "functional currency" concept, guarantees that the figures included in the standards are not affected by the referred choice of the presentation currency.*
c) *We strongly support for entities whose functional currency is the currency of a hyperinflationary economy, and for which the comparative amounts are being translated into the currency of a non hyperinflationary economy, not to modify the figures presented in the prior year financial statements. Otherwise, will be very difficult to understand the meaning of the changes.*
d) *We support the consistent application of a translation method either for inclusion in the financial statements of the reporting entity or for presenting their stand-alone standards in a different presentation currency.*

Question 1
Do you agree with the proposed definition of functional currency as "the currency of the primary economic environment in which the entity operates" and the guidance proposed in paragraphs 7-12 on how to determine what is an entity's functional currency?

Answer:
We don't agree with the definition of functional currency included in pa. 6, but we support the explanations of the concept included in pa. 7. In our opinion, the use the term "environment" as the only concept underlying in the definition gives excessive height to the concept of "place when the entity develop its activity". We think that the most important concept in the definition of the functional currency have to be the currency that mainly influences sales prices and the more significant costs and expenses.

Question 2
Do you agree that a reporting entity (whether a group or a stand-alone entity) should be permitted to present its financial statements in any currency (or currencies) that it chooses?

Answer:

We agree with the free choice of all the currencies that the entity decides to use. The proper disclosure of the criteria for determining the functional currency and the translation method gives all the information needed to a clear understanding of the translated figures, and are more useful in different capital markets.

Question 3

Do you agree that all entities should translate their financial statements into the presentation currency (or currencies) using the same method as is required for translating a foreign operation for inclusion in the reporting entity's financial statements (see paragraphs 37 and 40)?

Answer:

We agree with the proposed method of translation. Gives consistency to the information provided for the entity, not able to prepare two different sets of standards translating into the same currency.

Question 4
Do you agree that the allowed alternative to capitalise certain exchange differences in paragraph 21 of IAS 21 should be removed?

Answer:

We agree with the elimination of the mentioned alternative. We support in general th e elimination of free choices in the same situation. If different valuation methods are to be applied, the reason has to be that the underlying situations are different.

Question 5
Do you agree that
(a) goodwill and
(b) fair value adjustments to assets and liabilities
that arise on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate (see paragraph 45)?

Answer:

We agree that all the assets (including goodwill) and liabilities located in the same country of the foreign operation have to be considered as integral part of the foreign operation an consequently translated at the closing rate as defined in pa. 45.

IAS 24
Related Party Disclosures

Question 1

Do you agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations (see paragraph 2)?
'Management' and 'compensation' would need to be defined, and measurement requirements for management compensation would need to be developed, if disclosure of these items were to be required. If commentators disagree with the Board's proposal, the Board would welcome suggestions on how to define 'management' and 'compensation'.

Answer:

NO, we do not agree.

Because management is a related party, we consider that management compensations should not receive a different treatment from the rest of the transactions with related parties in the Standard.

The fact that some countries may require the revelation of this information in the financial statements, together with the approval of compensations by the Shareholders' Meeting, as here in Argentina, we do not consider that this is reason enough to eliminate this requirement from the International Standard.

We agree with the point of view that disclosure, on individual basis, may be questioned for privacy reasons, what may be solved by requiring disclosure of management compensations be made on a global basis. Particularly, it is very important to disclose the total amount of management compensations, to reveal those compensations granted for results or other indicators.

Regarding the definition of management, it should not be different from the proposed definition in paragraph 9.(d) in the Standard, which includes directors, audit committee members and key management personnel.

The information to disclose should include the total amount of compensations accrued as well as benefits in kind granted for services of any nature provided to the entity under a global basis. If any amount from the compensation is paid through a bonus or benefit plan, the disclosure should include a brief description of the plan and the grounds on which employees are part of, or if the payment were made through options convertible in shares, the disclosure should encompass the scope of the right the amount of shares to be granted for the options, the exercise price, the purchased price (if any), and the maturity date of the options. Furthermore, disclosure should evidence total amounts reserved or accrued by the entity to pay retirement or similar employee benefits.

Question 2

Do you agree that the Standard should not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which that entity belongs (see paragraph 3)?
(Note that this proposal is the subject of alternative views of Board members, as set out in Appendix B.)

Answer:

NO, we do not agree.

When the separate financial statements of the parent or wholly owned subsidiary are required by law or used to base partnership decisions, particularly in the latter, the disclosure of related party transactions is of essence to understand the financial and economic situation and the results reported by the entity separately considered which is not shaded by the fact that the parent's or wholly owned subsidiary's view points are reported in the financial statements like the opinion of an investor rather than as a consolidated group.

In the other cases, when the disclosure of related party transactions is no longer useful information for the users of financial statements bearing in mind their objectives we agree with the proposal of not requiring the disclosure of the said transactions.

<u>Additional Comments</u>

Paragraph 17 of this Standard requires disclosures of related party transactions made on terms equivalent to those that prevail in arm's length transactions only if such disclosures can be substantiated.

Having in mind that usually the mere existence of the relationship between the parties can imply the transaction somehow differs from others made on terms equivalent to those that prevail in arm's length transactions, may entities as well as external auditors be required undue efforts because of having to assess if each transaction has been made on terms equivalent to arm's length transactions. We regard the disclosure on the nature, conditions and amounts of transactions as sufficient for users purposes in order that they be able to understand the potential effects of said transactions over the financial statements and to take decision therefrom.

IAS 27
Consolidated Financial Statements and Accounting for Investments in Subsidiaries

Question 1
Do you agree that a parent need not prepare consolidated financial statements if all the criteria in paragraph 8 are met?

Answer:

NO, we do not agree.

Consolidated Financial Information is useful to understand the position of a group or subgroup by the users of the financial statements. This kind of information cannot be omitted owed to shareholders' decisions.

Furthermore, if entities must issue separate financial statements, the disclosure of consolidated financial information is even more relevant.

Question 2
Do you agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity (see paragraph 26)?

Answer:

NO, we do not agree.

We consider that minority interests must not be presented within equity because they are not shareholders of the parent and, therefore, they do not have interests on the equity of the parent. In our opinion, consolidated financial statements constitute an appendix to the financial statements of the parent and, in consequence, minority interests must continue to be presented between liabilities and equity.

Although presenting minority interests within equity could be justified if the Group is considered from the point of view of the participating entities, i.e. as a single economic entity composed by the parent and the subsidiaries. We believe that the approach mentioned in the second paragraph of this comment provides more useful information because the interest of the shareholders is the parent's equity, on which the partnership decisions are based, such as allocation of dividends.

Additionally, the presentation of the minority interests within equity will cause separate and consolidated financial statements of the parent to disclose different equities, which, under the parent's view point, we do not consider appropriate for the above mentioned reasons, and because it will be against the criterion of consistency that must be applied in the preparation of separate and consolidated financial statements of the parent.

Question 3
Do you agree that investments in subsidiaries, jointly controlled entities and associates that are consolidated, proportionately consolidated or accounted for under the equity method in the consolidated financial statements should be either carried at cost or accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in the investor's
separate financial statements (paragraph 29)?

Answer:

NO, we do not agree.

There should be no differences between the criteria applied either to separate or to consolidated financial statements. The criteria must be applied consistently to both separate and consolidated financial statements.

Do you agree that if investments in subsidiaries, jointly controlled entities and associates are accounted for in accordance with IAS 39 in the consolidated financial statements, then such investments should be accounted for in the same way in the investor's separate financial statements (paragraph 30)?

Answer:

Yes

IAS 28
Accounting for Investments in Associates

Question 1
Do you agree that IAS 28 and IAS 31, Financial Reporting of Interests in Joint Ventures, should not apply to investments that otherwise would be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement, when such measurement is well-established practice in those industries (see paragraph 1)?

Answer:

We agree with this idea as long as the Standard emphasizes the fact that long-term investments without quotation are beyond its scope and this is to be applied regardless whether it is a generalized practice.

Question 2
Do you agree that the amount to be reduced to nil when an associate incurs losses should include not only investments in the equity of the associate but also other interests such as long-term receivables (paragraph 22)?

Answer:

Yes

IAS 33
Earnings Per Share

Question 1

Do you agree that contracts that may be settled either in ordinary shares or in cash, at the issuer's option, should be included as potential ordinary shares in the calculation of diluted earnings per share based on a rebuttable presumption that the contracts will be settled in shares?

Answer:

Yes

Question 2

Do you agree with the following approach to the year-to-date calculation of diluted earnings per share (as illustrated in Appendix B, examples 7 and 12)?

? The number of potential ordinary shares is a year-to-date weighted average of the number of potential ordinary shares included in each interim diluted earnings per share calculation, rather than a year-to-date weighted average of the number of potential ordinary shares weighted for the period they were outstanding (i.e. without regard for the diluted earnings per share information reported during the interim periods).

Answer:

We do not agree. It would be more precise to use the period they were outstanding to make the calculation.

? The number of potential ordinary shares is computed using the average market price during the interim periods reported upon, rather than using the average market price during the year-to-date period.

Answer:

No. See above.

? Contingently issuable shares are weighted for the interim periods in which they were included in the computation of diluted earnings per share, rather than being included in the computation of diluted earnings per share (if the conditions are satisfied) from the beginning of the year-to-date reporting period (or from the date of the contingent share agreement, if later).

Answer:

No. See above

IAS 40
Investment Property

The following are our comments about the proposed amendments to the existing standard:

General comments:

a) *We strongly support the intention of the IASB to eliminate the existence of alternatives, resulting in inconsistent application of the standard by different entities.*
b) *We think that giving the option to account as an Investment Property those ones held under an operating lease (because including land) or maintaining the treatment as assets only to the prepaid lease payments, add more inconsistency to the application of the Standards.*
c) *We also think that if the option is made on a property-by-property basis, adds more inconsistency even within the same entity or group.*
d) *In our opinion, agreeing in general with the proposal of considering as Investment Properties those ones held under operating leases and meeting all the requirements of the definition included in pa. 4 of IAS 40, all properties held under the mentioned conditions have to be accounted as Investment Properties, recognising the corresponding liability in the Balance Sheet.*

Question 1

Do you agree that the definition of investment property should be changed to permit the inclusion of a property interest held under an operating lease provided that:
(a) the rest of the definition of investment property is met; and
(b) the lessee uses the fair value model set out in IAS 40, paragraphs 27-49?

Answer:

We agree with the change in the definition proposed, except of our proposal of replacing the term "may" for the term "shall" in the text added to pa. 4.

Question 2

Do you agree that a lessee that classifies a property interest held under an operating lease as investment property should account for the lease as if it were a finance lease?

Answer:

We agree with the proposal. We think that it is the treatment most consistent with the presentation of the other leases with almost the same economic characteristics.

Question 3

Do you agree that the Board should not eliminate the choice between the cost model and the fair value model in the Improvements project, but should keep the matter under review with a view to reconsidering the option to use the cost model in due course?

Answer:

We don't agree with the free choice between the fair value model and cost model. We support the idea that in all the cases were reliable fair value measurements can be made because the existence of an active market, the fair value model have to be adopted. The cost model can be used if, and only if, the mentioned condition can't be *reached without an undue cost or effort. We think that adopting the same accounting treatment when the same conditions exist, add more consistency to the application of the standards.*

Jorge José Gil
CECyT General Director