"Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" (File Reference No. 1810-100)

Financial assets

The proposed guidance expands the use of fair value for many financial instruments, including loan portfolio, deposits, held to maturity investments and debentures, recording the changes in the results.

In particular, we do not consider appropriate to require Banks and credit entities to measure loans portfolio at fair value, considering that the intention of the entities is to held the loans and collect the contractual cash flows generated, under this circumstances we believe the loans portfolio should be measure at amortized cost. Requiring the use of fair value would not be consistent with the business strategy and management.

Financial liabilities

In general we do not agree with the proposed classification and measurement of financial liabilities at fair value as proposed in the guidance. We do not believe fair value is the most appropriate measurement for financial liabilities in all cases.

In addition, we consider unnecessary to report unrealized gains and losses that are unlikely ever to be realized.

Especially we do not agree with the proposed guidance on measurement deposits at fair value and reflect it on the financial statements, nor the need to present such measurement in the notes.

It would be a very complex exercise to measured deposits at fair value; it would require major modifications to our systems. In addition, we do not believe that deposits should be recorded at a value which is different to the value the depositor could require.

We believe amortized cost should be the default measurement for financial liabilities.

We believe loans and deposits measurement at fair value, would not provide useful information. The information could be misleading because it may not reflect that the entity intends to hold the instrument for collection or payments of contractual cash flows rather than to sell or settle the instrument with a third party.

We support the IASB's approach to the classification and measurement of financial assets and financial liabilities at fair value or at amortized cost depending on the entity's intention.

Impairment

In general, we agree with the requirement to evaluate financial assets on a collective (a pool of similar financial assets) when the individual evaluation indicates there is no impairment, but we believe it should only apply to certain financial assets such as loan portfolios.

Interest income

We do not believe that the recognition of interest income should be affected by the recognition or reversal of any credit impairments. We believe that interest income should be separately presented from credit risk.

Hedge accounting

We agree to simplify hedge accounting modifying the effectiveness threshold from "highly effective" to "reasonably effective". We believe that modify the threshold is appropriate and that qualitative information is appropriated to evaluate the effectiveness. This change would reduce the need to apply a significant amount of resources to perform quantitative statistical analyses to prove the effectiveness.

Scope

Questions for All Respondents

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments do you believe should be excluded or which financial instruments should be included that are proposed to be excluded? Why?

We agree with the scope, but we believe that assets (i.e. loan portfolio) and liabilities (deposits) held for the collection of cash flows should be measured at amortized cost.

We believe that the Board should be clearer with the treatment of hybrid instruments, especially embedded derivatives and financial instruments with characteristics of both liabilities and equity.

Question 2: The proposed guidance would require loan commitments, other than loan commitments related to a revolving line of credit issued under a credit card arrangement, to be measured at fair value. Do you agree that loan commitments related to a revolving line of credit issued under a credit card arrangement should be excluded from the scope of this proposed Update? If not, why?

Yes, we agree that loan commitments related to a revolving line of credit issued under a credit card arrangement should be excluded from the scope of this proposed Update. We believe that assets held for the collection of cash flows should be measured at amortized cost.

Question 3: The proposed guidance would require deposit-type and investment contracts of insurance and other entities to be measured at fair value. Do you agree that deposit-type and investment contracts should be included in the scope? If not, why?

No, we disagree. Such contracts should be considered an insurance contract; therefore we believe they should not be included in the scope.

Question 4: The proposed guidance would require an entity to not only determine if they have significant influence over the investee as described currently in Topic 323 on accounting for equity method investments and joint ventures but also to determine if the operations of the investee are related to the entity's consolidated business to qualify for the equity method of accounting. Do you agree with this proposed change to the criteria for equity method of accounting? If not, why?

We believe that if the entity has significant influence over its investees the entity should apply the equity method, regardless of whether the operations of the investee are related to the entity's consolidated business.

Initial Measurement

Questions for All Respondents

Question 8: Do you agree with the initial measurement principles for financial instruments? If not, why?

We agree with the initial measurement for financial instruments. But there are several assets (i.e. loan portfolio) and liabilities (i.e. deposits) that we believe should be measured at amortized cost, in order to be consistent with the strategy of the entity.

Question 9: For financial instruments for which qualifying changes in fair value are recognized in other comprehensive income, do you agree that a significant difference between the transaction price and the fair value on the transaction date should be recognized in net income if the significant difference relates to something other than fees or costs or because the market in which the transaction occurs is different from the market in which the reporting entity would transact? If not, why?

We agree to recognize the significant differences in results if it comes from the acquisition of a new financial instrument. We do not agree to recognize this difference when it comes from a restructure due to due to changes in the strategy or changes in risk aversion.

Question 10: Do you believe that there should be a single initial measurement principle regardless of whether changes in fair value of a financial instrument are recognized in net income or other comprehensive income? If yes, should that principle require initial measurement at the transaction price or fair value? Why?

We do not believe that there should be a single principle.

Question 11: Do you agree that transaction fees and costs should be (1) expensed immediately for financial instruments measured at fair value with all changes in fair value recognized in net income and (2) deferred and amortized as an adjustment of the yield for financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income? If not, why?

We believe that identifying the commissions and transaction costs, relate them with the financial instruments and adjust the rate it is not operational, so we suggest to recognize the fees and costs in the results.

Question for Preparers and Auditors

Question 12: For financial instruments initially measured at the transaction price, do you believe that the proposed guidance is operational to determine whether there is a significant difference between the transaction price and fair value? If not, why?

We believe that the proposed guidance is operational. However, we believe it is necessary to define and clarify the term "significant difference".

Subsequent Measurement

Questions for All Respondents

Question 13: The Board believes that both fair value information and amortized cost information should be provided for financial instruments an entity intends to hold for collection or payment(s) of contractual cash flows. Most Board members believe that this information should be provided in the totals on the face of the financial statements with changes in fair value recognized in reported stockholders' equity as a net increase (decrease) in net assets. Some Board members believe fair value should be presented parenthetically in the statement of financial position. The basis for conclusions and the alternative views describe the reasons for those views. Do you believe the default measurement attribute for financial instruments should be fair value? If not, why? Do you believe that certain financial instruments should be measured using a different measurement attribute? If so, why?

We do not relieve the default measurement attribute for all financial instruments should be fair value. We believe certain financial assets, such as loan portfolio, investments held to maturity and deposits, should be permitted to be measured at amortized cost.

Question 14: The proposed guidance would require that interest income or expense, credit impairments and reversals (for financial assets), and realized gains and losses be recognized in net income for financial instruments that meet the criteria for qualifying changes in fair value to be recognized in other comprehensive income. Do you believe that any other fair value changes should be recognized in net income for these financial instruments? If yes, which changes in fair value should be separately recognized in net income? Why?

If the final guidance is similar to IFRS 9 our answer would be yes. In addition, we believe that the foreign exchange gain or loss should be recognized in the results.

Question 16: The proposed guidance would require an entity to decide whether to measure a financial instrument at fair value with all changes in fair value recognized in net income, at fair value with qualifying changes in fair value recognized in other comprehensive income, or at amortized cost (for certain financial liabilities) at initial recognition. The proposed guidance would prohibit an entity from subsequently changing that decision. Do you agree that reclassifications should be prohibited? If not, in which circumstances do you believe that reclassifications should be permitted or required? Why?

We believe there are not technical arguments for prohibiting reclassifications. Reclassifications should be permitted when there is a change in the business strategy.

Question 17: The proposed guidance would require an entity to measure its core deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-incost-to-service rate over the implied maturity of the deposits. Do you believe that this remeasurement approach is appropriate? If not, why? Do you believe that the remeasurement amount should be disclosed in the notes to the financial statements rather than presented on the face of the financial statements? Why or why not?

Question 31: The proposed guidance would require an entity to measure its core deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-incost- to-service rate over the implied maturity of the deposits. Do you believe that this remeasurement approach is operational? Do you believe that the remeasurement approach is clearly defined? If not, what, if any, additional guidance is needed?

We do not believe that the proposed remeasurement approach for core deposit liabilities is appropriate, either on the face of the financial statements or disclosed in the notes to the financial statements. We believe that the complexity it introduces is not supported by the benefits. First, financial institutions do not manage their core deposit bases using a present value notion. Second, we do not believe that the change in equity resulting from the remeasurement approach will be understandable by users of the financial information.

Financial liabilities

Question 15: Do you believe that the subsequent measurement principles should be the same for financial assets and financial liabilities? If not, why?

Question 18: Do you agree that a financial liability should be permitted to be measured at amortized cost if it meets the criteria for recognizing qualifying changes in fair value in other comprehensive income and if measuring the liability at fair value would create or exacerbate a measurement attribute mismatch? If not, why?

Question 29: Do you believe that measuring financial liabilities at fair value is operational? If not, why?

Question 30: Do you believe that the proposed criteria are operational to qualify for measuring a financial liability at amortized cost? If not, why?

We do not believe there needs to be symmetry in the measurement principles for financial assets and financial liabilities. Consistent with our views on the measurement of financial assets, we do not believe fair value is the most appropriate measurement for financial liabilities in all cases.

We consider unnecessary to report unrealized gains and losses that are unlikely ever to be realized.

It would be a very complex exercise to measured deposits at fair value; it would require major modifications to our systems. In addition, we do not believe that deposits should be recorded with a value that is different to the value the depositor could require.

We believe amortized cost should be the default measurement for financial liabilities.

Question 19: Do you believe that the correct financial instruments are captured by the criteria in the proposed guidance to qualify for measurement at the redemption amount for certain investments that can be redeemed only for a specified amount (such as an investment in the stock of the Federal Home Loan Bank or an investment in the Federal Reserve Bank)? If not, are there any financial instruments that should qualify but do not meet the criteria? Why?

We believe the correct financial instruments are included in the guidance.

Question 20: Do you agree that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with qualifying changes in fair value recognized in other comprehensive income in combination with other deferred tax assets of the entity (rather than segregated and analyzed separately)? If not, why?

We do not agree with the proposed guidance since for the creating of a deferred tax asset the entity's intention on each instrument must be evaluated. There are debt instruments held to collect the flows, recording a deferred tax in the stockholders equity would not be appropriate because the intention is not to trade the instruments and therefore the deferred tax would not be realizable.

Question 21: The Proposed Implementation Guidance section of this proposed Update provides an example to illustrate the application of the subsequent measurement guidance to convertible debt (Example 10). The Board currently has a project on its technical agenda on financial instruments with characteristics of equity. That project will determine the classification for convertible debt from the issuer's perspective and whether convertible debt should continue to be classified as a liability in its entirety or whether the Board should require bifurcation into a liability component and an equity component. However, based on existing U.S. GAAP, the Board believes that convertible debt would not meet the criterion for a debt instrument under paragraph 21(a)(1) to qualify for changes in fair value to be recognized in other comprehensive income because the principal will not be returned to the creditor (investor) at maturity or other settlement. Do you agree with the Board's application of the proposed subsequent measurement guidance to convertible debt? If not, why?

We believe these financial instruments should not be measured at fair value.

Questions for Preparers and Auditors

Question 28: Do you believe that the proposed criteria for recognizing qualifying changes in fair value in other comprehensive income are operational? If not, why?

We believe the business strategy and the features of the instruments should be considered.

Presentation

Questions for All Respondents

Question 32: For financial liabilities measured at fair value with all changes in fair value recognized in net income, do you agree that separate presentation of changes in an entity's credit standing (excluding changes in the price of credit) is appropriate, or do you believe that it is more appropriate to recognize the changes in an entity's credit standing (with or without changes in the price of credit) in other comprehensive income, which would be consistent with the IASB's tentative decisions on financial liabilities measured at fair value under the fair value option? Why?

We do not support the Board's proposal for recognizing changes in fair value related to an entity's own credit in net income for financial instruments measured at fair value.

Question 33: Appendix B describes two possible methods for determining the change in fair value of a financial liability attributable to a change in the entity's credit standing (excluding the changes in the price of credit). What are the strengths and weaknesses of each method? Would it be appropriate to use either method as long as it was done consistently, or would it be better to use Method 2 for all entities given that some entities are not rated? Alternatively, are there better methods for determining the change in fair value attributable to a change in the entity's credit standing, excluding the price of credit? If so, please explain why those methods would better measure that change.

We believe it is not appropriate to separate the valuation related to changes in the entity's own risk. We believe these methods are not appropriate and we do not see any usefulness in separating the valuation.

Question 34: The methods described in Appendix B for determining the change in fair value of a financial liability attributable to a change in an entity's credit standing (excluding the changes in the price of credit) assume that the entity would look to the cost of debt of other entities in its industry to estimate the change in credit standing, excluding the change in the price of credit. Is it appropriate to look to other entities within an entity's industry, or should some other index, such as all entities in the market of a similar size or all entities in the industry of a similar size, be used? If so, please explain why another index would better measure the change in the price of credit.

We believe it is not appropriate to separate the valuation related to changes in the entity's own risk.

Credit Impairment

Questions for All Respondents

Question 37: Do you believe that the objective of the credit impairment model in this proposed Update is clear? If not, what objective would you propose and why?

We believe that the objective of the credit impairment model should include expectations of future events, are necessary for the analysis. If at the reporting date events that could affect the credit quality of the measured assets are known, these should be recognized.

Question 38: The proposed guidance would require an entity to recognize a credit impairment immediately in net income when the entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s). The IASB Exposure Draft, *Financial Instruments: Amortised Cost and Impairment* (Exposure Draft on impairment), would require an entity to forecast credit losses upon acquisition and allocate a portion of the initially expected credit losses to each reporting period as a reduction in interest income by using the effective interest rate method. Thus, initially expected credit losses would be recorded over the life of the financial asset as a reduction in interest income. If an entity revises its estimate of cash flows, the entity would adjust the carrying amount (amortized cost) of the financial asset and immediately recognize the amount of the adjustment in net income as an impairment gain or loss. Do you believe that an entity should immediately recognize a credit impairment in net income when an entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s) as proposed in this Update, or do you believe that an entity should recognize initially expected credit losses over the life of the financial instrument as a reduction in interest income, as proposed in the IASB Exposure Draft on impairment?

In the case of loan portfolios depends on the term in which the loss is estimated. If the estimated loss is for the entire life of the loan, it would be necessary to separate the loss expected in the next year and carry this amount to the results in order to increase provisions, as we do in Mexico and as proposed by Basel II. This credit loss evaluation should be done considering a one-year horizon.

For financial instruments, we believe that while collecting contractual cash flows it would be better to adopt the IASB approach and recognize the impairment over the life of the financial instrument. Thus, at the time the entity no longer receives contractual cash flows the entity should re-evaluate and decide whether to recognize any impairment at that date or recognize the impairment gradually as a reduction in income.

Question 39: Do you agree that a credit impairment should not result from a decline in cash flows expected to be collected due to changes in foreign exchange rates, changes in expected prepayments, or changes in a variable interest rate? If not, why?

We believe credit impairment should be for any factor that decreases: 1) credit quality (payment capability and willingness to pay), 2) severity of the loss given default. Certain circumstances could modified the cash flows to be received, but if there is no impairment in the credit quality nor the severity of the loss given default the entity should not recognized a credit impairment.

Question 40: For a financial asset evaluated in a pool, the proposed guidance does not specify a particular methodology to be applied by individual entities for determining historical loss rates. Should a specific method be prescribed for determining historical loss rates? If yes, what specific method would you recommend and why?

Some methods could be proposed, but they should be optinal and not mandatory, as it depends on the nature of the financial evaluated in the pool. The loss given default should consider the priests, recovered flows from credits that were not cured and include in the recovery rate the value of money over time and administrative costs of liquidation, the priority of the application of payments (principal, interest, late payment, fees, etc.) recovery type (cash, payment in kind, forgiving, etc..) guarantees (personal property, real estate, guarantee fund, unsecured, etc.). and have a historical loss rate considering these attributes.

Question 41: Do you agree that if an entity subsequently expects to collect more cash flows than originally expected to be collected for a purchased financial asset, the entity should recognize no immediate gain in net income but should adjust the effective interest rate so that the additional cash flows are recognized as an increase in interest income over the remaining life of the financial asset? If not, why?

It depends on the reason for which is expected to receive more cash flows and the likelihood of receipt.

Question 42: If a financial asset that is evaluated for impairment on an individual basis has no indicators of being individually impaired, the proposed guidance would require an entity to determine whether assessing the financial asset together with other financial assets that have similar characteristics indicates that a credit impairment exists. The amount of the credit impairment, if any, would be measured by applying the historical loss rate (adjusted for existing economic factors and conditions) applicable to the group of similar financial assets to the individual financial asset. Do you agree with this requirement? If not, why?

Grouping financial assets with similar features and apply them the same statistical parameters works to the extent that the group is homogeneous and have a considerable amount of credits. Otherwise, the best would be to evaluate each credit based on its probability of default and severity of the loss and calculate the expected loss.

Question 46: The proposed guidance would require that in determining whether a credit impairment exists, an entity consider all available information relating to past events and existing conditions and their implications for the collectibility of the cash flows attributable to the financial asset(s) at the date of the financial statements. An entity would assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and would not forecast future events or economic conditions that did not exist at the reporting date. In contrast, the IASB Exposure Draft on Impairment proposes an expected loss approach and would require an entity to estimate credit losses on basis of probability-weighted possible outcomes. Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting future events or economic conditions that did not exist at the end of the reporting period would be more appropriate? Are both methods operational? If not, why?

To assume that the economic conditions would remain unchanged, is a possible scenario in the method of estimating future economic scenarios, so we believe this method es more comprehensive and provides more flexibility to generate scenarios of loss sensivity and measure the impact of the stress scenarios in order to take actions to mitigate the effects of these scenarios. In their budgets, all entities setup events in the future, so this method fits all institutions.

Question 47: The proposed guidance would require that an appropriate historical loss rate (adjusted for existing economic factors and conditions) be determined for each individual pool of similar financial assets. Historical loss rates would reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool. Would such an approach result in a significant change in practice (that is, do historical loss rates typically reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool or some shorter period)?

To calculate the severity of the loss given default, entities must define a fixed period long enough to capture the potential for recovery. This period depends on the guarantee or kind of credit; for example, consumer loans have shorter recovery period while mortgages have a longer recovery period. If entities are doing individual analysis, it is possible to analyze the entire life of the loan, but if the entity is grouping credits it is necessary to define an appropriate standard and calculate the severity according to the standard, considering that what is beyond the period is nos significant for the group being assessed.

Interest Income

Questions for All Respondents

Question 48: The proposed guidance would require interest income to be calculated for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses. Do you believe that the recognition of interest income should be affected by the recognition or reversal of credit impairments? If not, why?

Question 49: Do you agree that the difference in the amount of interest contractually due that exceeds interest accrued on the basis of an entity's current estimate of cash flows expected to be collected for financial assets should be recognized as an increase to the allowance for credit losses? If not, why?

We disagree. We do not believe that the recognition of interest income should be affected by the recognition or reversal of credit impairments, interest income should be presented separately from credit risk. It represents a major operational challenge.

Question 50: The proposed guidance would permit, but would not require, separate presentation of interest income on the statement of comprehensive income for financial assets measured at fair value with all changes in fair value recognized in net income. If an entity chooses to present separately interest income for those financial assets, the proposed guidance does not specify a particular method for determining the amount of interest income to be recognized on the face of the statement of comprehensive income. Do you believe that the interest income recognition guidance should be the same for all financial assets?

If it is operational, we believe the interest income recognition should be the same for all financial assets.

Question 51: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient to understand the proposed credit impairment and interest income models? If not, what additional guidance or examples are needed?

We believe the Board could give additional guidance to understand the credit impairment model.

Hedge Accounting

Questions for All Respondents

Question 56: Do you believe that modifying the effectiveness threshold from *highly effective* to *reasonably effective* is appropriate? Why or why not?

Yes, we believe that modify the threshold is appropriate. We believe that qualitative information is appropriated to evaluate the effectiveness.

Question 57: Should no effectiveness evaluation be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term? Why or why not?

We agree. If it was determined at inception that the hedging relationship was expected to be reasonably effective no effectiveness evaluation should be required.

Question 58: Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? Why or why not?

Yes, because the variation day by day may be discrete, but after a while the total effect could be material. This will cause that the circumstances never show a material effect so that the effectiveness evaluation is required, but totalizing the effect the hedging relationship may be broken.

Questions for Preparers and Auditors

Question 61: Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for cash flow hedging relationships? If yes, what constraints do you foresee and how would you alleviate them?

No. our actual procedures include effectiveness tests for cash flow hedge.

Question 62: Do you foresee any significant operational concerns or constraints in creating processes that will determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness at each reporting period? If yes, what constraints do you foresee and how would you alleviate them?

No. We believe entities have policies and procedures to determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective.

Question 63: Do you foresee any significant operational concerns or constraints arising from the inability to discontinue fair value hedge accounting or cash flow hedge accounting by simply dedesignating the hedging relationship? If yes, what constraints do you foresee and how would you alleviate them?

No, we operate hedge and administrate it as a single operation. If we decide to end the hedge relation, we unwind the complete strategy.

Question 64: Do you foresee any significant operational concerns or constraints arising from the required concurrent documentation of the effective termination of a hedging derivative attributable to the entity's entering into an offsetting derivative instrument? If yes, what constraints do you foresee and how would you alleviate them?

No, our procedure requires documentation for every hedge file termination.

Disclosures

Question for All Respondents

Question 65: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement do you believe should not be required and why?

Yes, we agree with the proposed disclosure requirements.

Question 67: Are there any other disclosures that you believe would provide decision-useful information and why?

We agree with the proposed disclosure requirements.

Effective Date and Transition

Questions for All Respondents

Question 68: Do you agree with the transition provision in this proposed Update? If not, why?

Yes, we agree with the proposal to apply the proposed guidance by means of a cumulative-effect adjustment to the statement of financial position for the reporting period that immediately precedes the effective date.

Question 69: Do you agree with the proposed delayed effective date for certain aspects of the proposed guidance for nonpublic entities with less than \$1 billion in total consolidated assets? If not, why?

A delayed effective date should be considered for all entities. Public entities have more transactions and more complexity in their operations, which require more time to implement the proposed guidance.

Questions for Preparers and Auditors

Question 70: How much time do you believe is needed to implement the proposed guidance?

We would have to evaluate costs, personnel, systems, etc. but it could take several years to implement the proposed guidance. To avoid wasting resources, the evaluation should be performed on a nearly final proposed guidance.

Question 71: Do you believe the proposed transition provision is operational? If not, why?

We believe it could be operational, but we will need additional guidance to determine the proposed transition provision.