Mexico City, December 15, 2015

Michael Stewart,
Director of Implementation Activities,
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Michael:

In our letter dated September 30, 2015, we mentioned that we had begun an investigation among the country members of GLASS, of the experiences of entities that pay their income taxes in a currency other than their functional currency.

We shared the following topic with the country members of GLASS:

> *Entities that operate with a functional currency and pay their income taxes in a currency other than their functional currency, determine exchange rate fluctuations that create temporary differences related to nonmonetary assets and, consequently, result in deferred taxes. When an entity operates in an unstable economic environment, these effects are very inconsistent and, therefore, create significant volatility in the effective tax rate.*
>
> *In the opinion of some issuers, the aforementioned volatility of the effective tax rate distorts their financial statements, as they believe that the effective tax rate determined in a particular period is not representative of the income taxes that will ultimately be incurred, precisely because the effects of exchange rate fluctuations may subsequently reverse.*

Our investigation included requesting all GLASS country members to share their experiences with regard to the issue mentioned above. We received four responses from specialists in three countries: Argentina (2), Colombia and Uruguay. The countries that responded told us that currently, and for some time, they have experienced situations similar to that described in the previous paragraph. Below we present a summary of the comments we received, including the opinion of Mexico.

Country	Suggestion for the IASB
Mexico	Considering that entities in the aforementioned circumstances believe that IAS 12 should include an exception to its paragraph 41 that allows entities that operate in unstable economic environments to not recognize the deferred taxes resulting from exchange rate fluctuations associated with nonmonetary assets. In that way, the exchange effects would only impact current taxes upon realization. Such treatment is established in US-GAAP. Consequently, Mexico suggests that the IASB explore the possibility of including in IAS 12 the same exception contemplated in US-GAAP in order to resolve this significant problem for Latin American entities that operate in unstable economic environments. It considers this to be a desirable practical expedient.
Colombia	Agrees with Mexico.
Uruguay	Agrees with Mexico.
Argentina Opinion 1	Agrees with Mexico.
Argentina Opinion 2	Disagrees with Mexico. Some in Argentina argue that the proposed exception to paragraph 41 could be utilized by anyone applying IAS 12, regardless of the level of stability of the economic environment in which the entity operates. As a result, they consider the proposed exception to be very risky. Those in disagreement suggest that, based on paragraph 7 of IAS 12 and the use of professional judgment, the IASB explore the possibility of allowing each entity to evaluate whether or not to recognize the deferred taxes derived from the aforementioned situation, considering the probability of payment of the deferred taxes caused by exchange rate volatility. We would appreciate the opinion of the IASB regarding this proposed application of IAS 12.

We would greatly appreciate your comments on this issue, as we believe that this matter is becoming pervasive, especially in emerging economies.

Should you require additional information on our comments listed above, please contact Elsa B. García at (52) 55 5596 5633 ext. 108 or me at (52) 55 5596 5633 ext. 103 or by e-mail at egarcia@cinif.org.mx or fperezcervantes@cinif.org.mx, respectively.

Kind regards,

C.P.C. Felipe Perez Cervantes
President of the Mexican Financial Reporting Standards Board
Consejo Mexicano de Normas de Información Financiera (CINIF)

cc: Amaro Gomes
cc: Denise Durant
cc: Prahalad Halgeri