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IFRIC Draft Interpretation D23 - Distributions of Non-cash Assets to Owners

Dear Sirs,

In response to your invitation to comment, and as a preparer of accounts under International Financial Reporting Standards, I am pleased to attach our comments on the above mentioned draft Interpretation.

Our main concern with D23 is that it proposes how an entity should measure liabilities for distributions of non-cash assets without fully addressing re-measurement of the related assets. In our opinion, it is not sensible to formulate guidance for the liability for a non-cash distribution separately from a comprehensive review of re-measurement guidance for the assets to be distributed. IFRIC cannot change IFRS and can therefore only discuss asset measurement to the extent of recommending how existing IFRS 5 should be applied here, whereas in our view a broader review is needed.

D23 paragraph 12 requires the entity to record a profit or loss (generally a profit for the reasons given in D23 paragraph BC29) at the distribution date if the carrying amount of the asset(s) distributed differs from the fair value of the liability, which is measured as equal to the fair value of the asset(s). Because of mismatches between asset and liability measurement throughout IFRS, such differences will occur if D23 becomes a final interpretation.

Regardless of whether the fair value measurement principle is applied to the assets to be distributed or the related liability, the proposed accounting treatment will appear counter-intuitive to many users because the distribution makes the entity 'worse off' only by the value of the asset; intuitively, the value of the asset and the liability at the distribution date should be equal.

Secondly, in spin-off transactions, it would seem inconsistent to require the distributing entity to measure the liability for the distribution at fair value, presenting financial statements to its shareholders which show a profit or loss on the distribution, and not require those fair values to be presented to the very same shareholders as carrying amounts on initial recognition of the assets and liabilities in the financial statements of the new entity created by the spin-off. In our opinion, spin-offs and fresh start accounting should be deliberated by the IASB as part of a single project. Spin-off accounting is too broad an issue to be dealt with satisfactorily in an IFRIC interpretation.

For the above two reasons, in our opinion responsibility for pursuing the issues raised by D23 should be handed over fully by IFRIC to the IASB for consideration in its conceptual framework project.

Yours Faithfully,

James Halliwell
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