

James Halliwell
Group Financial Controller

Syngenta International AG
Finance Department
P.O. Box
CH-4002 Basel
Switzerland
www.syngenta.com

Tel: +41 61 323 70 74
Fax: +41 61 323 57 44
james.halliwell@syngenta.com



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

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EXPOSURE DRAFT “HEDGE ACCOUNTING”

Dear Sir / Madam,

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 Exposure Draft (ED).

Yours Faithfully,

James Halliwell
Group Financial Controller

Question 1

Do you agree with the proposed objective of hedge accounting? Why or why not? If not, what changes do you recommend and why?

Syngenta response:

We support the proposed objective of hedge accounting in the ED which in our view will have the outcome that the financial statements will more accurately represent the position of the company after consideration of the risk management strategies in place. We agree that including an objective in the proposed requirements helps in setting the scene and laying the foundation for a more principle-based approach.

We do have some concerns within the ED where restrictions are still in place, for example the prohibition of hedge accounting for risks where value changes affect other comprehensive income only and not profit or loss. There remains a mis-match between the hedging operations which take place from a risk management perspective and those which will qualify for hedge accounting. Due to these limitations, the principle-based approach will therefore not be as pervasive as other principles contained within international reporting standards.

Question 2

Do you agree that a non-derivative financial asset and a non-derivative financial liability measured at fair value through profit or loss should be eligible hedging instruments? Why or why not? If not, what changes do you recommend and why?

Syngenta response:

We agree with the proposal to classify non-derivative financial assets and liabilities measured at fair value through profit and loss as eligible hedging instruments. This will aid the alignment of the financial reporting with that of risk management objectives.

Despite comments within IN15, we are of the opinion that the application of hedge accounting should not be limited to risks contained within profit and loss, and should be extended to risks contained within both other comprehensive income and equity. This would enable the application of hedge accounting for risk management operations that limit fair value risk on investments whose fair value changes are recognised within other comprehensive income or within equity such as cash flow risk due to foreign exchange movements on dividends paid to the entity's shareholders in more than one currency (for example under a dual listing) and share price risk on Treasury shares.

Question 3

Do you agree that an aggregated exposure that is a combination of another exposure and a derivative may be designated as a hedged item? Why or why not? If not, what changes do you recommend and why?

Syngenta response:

We support this proposal. The ability to combine risk exposures as a hedged item will aid the alignment of hedge accounting with the risk management operations that are entered into.

Question 4

Do you agree that an entity should be allowed to designate as a hedged item in a hedging relationship changes in the cash flows or fair value of an item attributable to a specific risk or risks (i.e. a risk component), provided that the risk component is separately identifiable and reliably measurable? Why or why not? If not, what changes do you recommend and why?

Syngenta response:

We strongly support extending the ability to identify a risk component within a non-financial item and designate such a component as a hedged item. This proposal will eliminate significant constraints within the current standard and will allow for a more accurate representation of the hedging operations that we currently undertake. These include hedging strategies undertaken to mitigate against movements in commodity prices for committed purchases which previously would not have satisfied the requirements for hedge accounting.

We are of the opinion that the ED's blanket exclusion of certain risks from hedge accounting, such as credit risk, is rule based and not conceptually justified. In our opinion, credit risk for at least some financial assets is separately identifiable and reliably measurable. Indeed, measuring the effect of counterparty credit risk on derivative valuations is a necessary step in testing the effectiveness of derivatives designated as hedges of market risks in accordance with IAS 39. If an entity has a non-derivative financial asset due from a financial sector counterparty which has an observable credit rating, and there is a market in credit default swaps for that counterparty, we see no conceptual justification why a hedge of the credit risk of the financial asset should not qualify for hedge accounting.

Question 5

(a) Do you agree that an entity should be allowed to designate a layer of the nominal amount of an item as the hedged item? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that a layer component of a contract that includes a prepayment option should not be eligible as a hedged item in a fair value hedge if the option's fair value is affected by changes in the hedged risk? Why or why not? If not, what changes do you recommend and why?

Syngenta response:

We support the ability to designate a layer of the nominal amount of an item as the hedged item to reflect the fact that there are levels of uncertainty against some hedged items. This will further align hedge accounting with our risk management strategies.

We are not exposed to layers of contracts that include a prepayment option and are not in a position to offer an opinion on this point.

Question 6

Do you agree with the hedge effectiveness requirements as a qualifying criterion for hedge accounting? Why or why not? If not, what do you think the requirements should be?

Syngenta response:

We welcome the removal of the bright-line 80-125% requirement and recognise that an alternative criterion should be imposed in order to identify relationships which qualify for hedge accounting.

Upon review of the effectiveness requirements within the current ED, combined with the issue of rebalancing in question 7, we request that the two concepts are further expanded and explained.

Different readers have interpreted the requirements of these principles in alternative ways, and one concern is that the proposed standard could be considered more strict than the 80-125% bright line; in effect a 100% ratio would need to be obtained in order to qualify for hedge accounting, and where this is not achieved further financial instruments would need to be purchased to maintain hedge accounting throughout the life of the hedge relationship. We would therefore request further examples of these concepts, together with explicit guidance that rebalancing is not required for immaterial deviations from the optimal hedging ratio.

We appreciate that the proposals are a step-change to the requirements for hedge accounting, and recognise that as these two principles are fundamental to the new standard, further explanation is required in order to ensure that they are applied consistently in practice. We therefore reserve judgment on the operational viability of these concepts until they have been communicated more comprehensively.

Question 7

(a) Do you agree that if the hedging relationship fails to meet the objective of the hedge effectiveness assessment an entity should be required to rebalance the hedging relationship, provided that the risk management objective for a hedging relationship remains the same? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that if an entity expects that a designated hedging relationship might fail to meet the objective of the hedge effectiveness assessment in the future, it may also proactively rebalance the hedge relationship? Why or why not? If not, what changes do you recommend and why?

Syngenta response:

In principle, we accept that where a hedging relationship fails to meet the objective, then the relationship should be rebalanced. We welcome the ability to continue the hedge relationship rather than de-designation.

As mentioned in question 6 above, we request that the concept is further expanded to aid clarity of the requirements.

We have concerns over the resources that would be required to constantly analyse hedge relationships and buy or sell further financial instruments in order to ensure that a 100% effective hedge is maintained at all times. This may increase the cost and burden of maintaining hedge accounting, for example in an illiquid market. We therefore consider that an excessively strict requirement to rebalance is counter to the risk-management strategies that we would adopt otherwise.

Question 8

(a) Do you agree that an entity should discontinue hedge accounting prospectively only when the hedging relationship (or part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable)? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that an entity should not be permitted to discontinue hedge accounting for a hedging relationship that still meets the risk management objective and strategy on the basis of which it qualified for hedge accounting and that continues to meet all other qualifying criteria? Why or why not? If not, what changes do you recommend and why?

Syngenta response:

We are in agreement that any discontinued hedges would be accounted for prospectively.

We are concerned with the limitations to discontinue hedge accounting contained within the current ED. We however understand that these concerns may be alleviated through a further explanation and examples of the principles of rebalancing, particularly when a hedge would 'no longer meet the risk management objective or strategy'.

We therefore require more guidance on the requirements for rebalancing before we can offer an opinion on this position.

Question 9

(a) Do you agree that for a fair value hedge the gain or loss on the hedging instrument and the hedged item should be recognised in other comprehensive income with the ineffective portion of the gain or loss transferred to profit or loss? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that the gain or loss on the hedged item attributable to the hedged risk should be presented as a separate line item in the statement of financial position? Why or why not? If not, what changes do you recommend and why?

(c) Do you agree that linked presentation should not be allowed for fair value hedges? Why or why not? If you disagree, when do you think linked presentation should be allowed and how should it be presented?

Syngenta response:

We can understand the need for a common accounting approach for both fair value and cash flow hedges, and agree with the proposal to use other comprehensive income for the effective element of a fair value hedge.

We do not support the proposal within (b) for separate presentation within the statement of financial position. We believe that additional credit and debit balances throughout the statement of financial position will be confusing to a user of the financial statements. We propose that a presentation combining the amortized cost of the hedged item and the adjustments made to reflect the change in value due to risks within the designated hedged relationship is made within the primary financial statements, and the notes to the financial statements contain disaggregation of the amounts into those related to the amortized cost of the underlying hedged items, the change in their value due to hedged risks and the amounts related to the related hedging instruments.

In addition, we have some concerns regarding the ability to achieve hedge accounting for relationships which currently qualify for hedge accounting. For example, with reference to paragraph B9 where an interest rate swap is designated as a hedge of fair value risk. If risk management's intention of the relationship is to take advantage of the short-term interest rate environment, rather than an intention to settle the debt early (and therefore hedge the fair value exposure of the instrument), taking the currently ED "ad extremum", it could be argued that the relationship would not qualify as a fair value hedge. In this respect, we would welcome further clarification, to make sure that as an unintended consequence, the new proposal would actually not limit the number of eligible hedging strategies.

Question 10

(a) Do you agree that for transaction related hedged items, the change in fair value of the option's time value accumulated in other comprehensive income should be reclassified in accordance with the general requirements (eg like a basis adjustment if capitalised into a non-financial asset or into profit or loss when hedged sales affect profit or loss)? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that for period related hedged items, the part of the aligned time value that relates to the current period should be transferred from accumulated other comprehensive income to profit or loss on a rational basis? Why or why not? If not, what changes do you recommend and why?

(c) Do you agree that the accounting for the time value of options should only apply to the extent that the time value relates to the hedged item (ie the 'aligned time value' determined using the valuation of an option that would have critical terms that perfectly match the hedged item)? Why or why not? If not, what changes do you recommend and why?

Syngenta response:

We support the proposal within (a) to defer an option's time value in other comprehensive income when an entity separates the intrinsic value and time value of an option contract. We support the view that the basis adjustment should be recognised in accordance with the hedged item and do not foresee any problems in applying this operationally.

We support the proposal within (b) to recognise the time value on a rational basis within profit and loss. We however would like further explicit guidance that on a 'rational' basis, both a straight-line or pro-rated amortisation would be considered acceptable.

The proposal within (c) aligns the recognition of time-value of options with that of any ineffectiveness on the hedging relationship, and we would support this position.

Question 11

Do you agree with the criteria for the eligibility of groups of items as a hedged item? Why or why not? If not, what changes do you recommend and why?

Syngenta response:

We agree with the criteria that assets are individually eligible for hedge accounting, and are managed on a group basis in order to qualify for eligibility of hedge accounting.

Question 12

Do you agree that for a hedge of a group of items with offsetting risk positions that affect different line items in the income statement (eg in a net position hedge), any hedging instrument gains or losses recognised in profit or loss should be presented in a separate line from those affected by the hedged items? Why or why not? If not, what changes do you recommend and why?

Syngenta response:

We agree with this proposal as the allocation of gains or losses to separate elements within the hedging relationship would require considerable resource and may not accurately reflect the underlying financial situation.

Question 13

(a) Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes do you recommend and why?

(b) What other disclosures do you believe would provide useful information (whether in addition to or instead of the proposed disclosures) and why?

Syngenta response:

In our opinion, the wording of the disclosures proposed in the ED should be clarified. In particular, we are concerned with:

- paragraph 46(c), which mentions the average rate at which an exposure is hedged, would seem to require a company to disclose sensitive information to others that may result in a competitive disadvantage. This information could be used by competitors or market speculators to take positions in the market for the hedged item which adversely influence the operations of the company and/or the position of the other market participants with whom the company is transacting.
- the requirements in paragraph 40(b), 44(c) and 46(a) and 46(b) that effectively appear to require disclosure of forecasts of the extent of future expected transactions.

We propose that the disclosure requirements should be restricted to risk management policies, hedges that are in place at the balance sheet date and information about hedges taken out during the accounting period. Disclosure of expectations about the extent of future transactions would amount to disclosure of budgetary information and goes against the principles of current accounting practices. This information is less reliable, and would provide speculators with the opportunity to flex the market prior to the entity's purchase of hedging instruments.

We also propose that the risk management policy disclosures within paragraph 40(a) be reworded to refer to a 'currently approved risk management policy' which would provide scope for adjusting these practices, rather than implying a commitment by the company to maintain current policies whatever significant market fluctuations may occur.

We are also concerned that the ability to cross-reference to non-audited information contained outside of the financial statements (paragraph 41) would pose severe problems for auditors and their clients in determining the extent of information that is within the scope of the audit opinion.

Question 14

Do you agree that if it is in accordance with the entity's fair value-based risk management strategy derivative accounting would apply to contracts that can be settled net in cash that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements? Why or why not? If not, what changes do you recommend and why?

Syngenta response:

We support the proposals that would provide the option to fair value contracts that would otherwise meet the 'own use exemption' within IAS 39, if that is in accordance with the entity's fair value-based risk management strategy. We are however concerned that this option may impair the ability to apply the own use exemption, and request that the standard more explicitly states that this does not preclude use of the exemption.

Question 15

(a) Do you agree that all of the three alternative accounting treatments (other than hedge accounting) to account for hedges of credit risk using credit derivatives would add unnecessary complexity to accounting for financial instruments? Why or why not?

(b) If not, which of the three alternatives considered by the Board in paragraphs BC226–BC246 should the Board develop further and what changes to that alternative would you recommend and why?

Syngenta response:

Hedges of credit risk using credit derivatives are not a frequent occurrence within our current risk management policy, and we are not in a position to provide detailed comments on this element.

Question 16

Do you agree with the proposed transition requirements? Why or why not? If not, what changes do you recommend and why?

Syngenta response:

We are of the opinion that the proposed standard will offer significant improvements from the current IAS 39, and would strongly consider early adoption. We would however request that the effective date is reviewed after consideration of the response to the Board's recent outreach on *Effective Dates and Transition Methods*.

We concur with the proposal to apply the standard prospectively.

Other points

The current ED will retain the exclusion of applying hedge accounting to business combinations, except for foreign exchange risk. The requirement to fair value contingent consideration under IFRS 3 will create volatility within profit and loss which could partially be hedged from a risk management perspective. Contingent consideration might be subject to market risks, other than foreign exchange, that are separately identifiable and reliably measurable. We see no conceptual reason why these should not qualify as a hedged item. We consider these restrictions on hedging business combinations are rule-based. We request that the ED is amended to enable hedge accounting for a wider range of risks contained within contingent consideration on business combinations.