James Halliwell
Planning, Reporting and
Control Manager

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
UK
Attention: Sandra Thompson, Senior Project Manager

20/10/2004

ED 7 – Financial Instruments: Disclosures

Dear Ms. Thompson

As a preparer of financial statements under International Financial Reporting Standards, we are pleased to attach our comments on the above-mentioned exposure draft.

Yours Sincerely,

James Halliwell
Planning, Reporting and Control Manager
Syngenta International AG

<u>General comments</u>

We fully support the objective of the proposals in ED7 to enable users to make more informed judgments about risk and return arising from financial instruments and we agree with the decision to include all entities in its scope.

Due to the complexity of financial instrument recognition and measurement, it is important that the related disclosures enhance, rather than obscure, user's understanding.

<u>Specific questions in invitation to comment</u>

Q1. *Disclosures relating to the significance of financial instruments to financial position and performance*

1. a) – c)

We agree with the principle of greater transparency regarding an entity's exposures to risks in order to enable users of financial statements to better evaluate the significance of financial instruments to an entity's financial position and performance.

d)

We disagree with the proposal in 21(d) requiring the separate disclosure of fee income and expense arising on financial assets and liabilities for the following reasons:

- for entities with very low levels of activity arising from financial assets and liabilities, these detailed disclosures could impede competitive fee negotiation

- BC17 states that the disclosure would indicate the level of such activity and therefore help users estimate future income; this may apply in financial institutions or entities that receive a large proportion of **revenue** from fees, but in many cases, the disclosure would mainly impact financial **expenses** and would not give any meaningful indication of activity levels due to the discrepancy of fees charged for various types of financial arrangements and/or in different regions of the world

- It is our view that activity levels are less informative about the significance of financial instruments to an entity than disclosures regarding the extent of risk exposures

Q2. *Disclosure of the fair value of collateral and other credit enhancements*

We agree with the proposal.

Q3. *Disclosure of a sensitivity analysis*

We do not disagree with the proposal to disclose a sensitivity analysis for market risk, particularly in light of BC36(a) which states that users have consistently requested this. We would, however, make the following comments:

- Disclosure of “reasonably possible” changes in risk variables is too vague. Not only would comparability across entities be difficult, it could in fact create confusion if different entities consider widely differing changes in risk variables to be “reasonably possible”

- For entities operating in many currencies, multiple geographic and economic environments, sensitivity analysis of market risk could potentially be either be too broad to be meaningful or so detailed that it would impede, rather than increase user’s understanding

- In our view, qualitative disclosure about market risk, supported by quantitative information regarding the extent and concentrations of risk as required by para 35 (except as it refers to paras 43 and 44) meet the objective of enabling users to evaluate the nature and extent of market risk

Q4. *Capital disclosures*

We agree that disclosures should enable users to evaluate the nature and extent of an entity’s capital, but we believe the information given in the Statement of Changes in Equity and supporting disclosures about distributable reserves and dividends already meet this objective.

BC46 states that the level and management of capital is an important factor in assessing the risk profile of an entity and its ability to withstand unexpected adverse events. The extensive disclosures about the nature and extent of risk exposures coupled with the quantitative financial information on assets, liabilities and equity already included in an entity’s financial statements should be sufficient to allow a user to make this assessment.

While disclosure of capital measurements used by management such as financial gearing ratios could enhance the quantitative information in the Statement of Changes in Equity, disclosure of internal targets is not meaningful. Internal targets may be set with varying management objectives relating to motivation and incentive factors. Furthermore, while non-compliance with an internal target implicitly reflects negatively on management, non-compliance may be due to uncontrollable economic and market conditions. Information about management objectives and achievements is most appropriately placed outside the financial statements where all these surrounding factors are discussed.

We agree that non-compliance with an externally imposed capital requirement and the consequences of non-compliance should be disclosed.

Q5. *Effective date and transition*

We agree with the proposed effective date and transition requirements.

Q6. *Location of disclosures of risks arising from financial instruments*

We agree with the location of disclosures of risks arising from financial instruments in the financial statements.

Q7. *Consequential amendments to IFRS 4 (paragraph B10 of Appendix B)*

We agree with the proposal.

Q8. *Implementation guidance*

We agree the Implementation Guidance is sufficient, except with regards to the points discussed in **Q3** above.

Q9. *Differences from the Exposure Draft of Proposed Statement of Financial Accounting Standards "Fair Value Measurements" published by the US Financial Accounting Standards Board (FASB)*

We agree that the requirements in the draft IFRS provide adequate disclosure of fair value compared with those proposed in the FASB's Exposure Draft "Fair Value Measurements".

Q10. *Other comments*

We would like to reiterate our agreement with the underlying objective to increase transparency about an entity's exposure to and management of risks arising from financial instruments. However, in addition to our comments above, there are two areas where we feel the additional information required is potentially misleading or does not further the stated objective.

1. 39(c) information about the credit quality of financial assets with credit risk that are neither past due nor impaired.

   We disagree that this requirement gives greater insight into credit risk and helps users assess whether such assets are more or less likely to become impaired in the future (BC29). Qualitative disclosures of credit risk management policies and quantitative disclosures of the extent of credit risk provide sufficient and appropriate information for users to form their own assessment an entity's exposure to credit risk.

BC29 states that no particular method for giving this information is specified; IG17 suggests disclosure of credit grading systems, nature of counterparties and historical default rates. It is unlikely that these disclosures will be comparable between entities and disclosures of risk concentrations should highlight any significant counterparty risk.

2. *Financial assets that are past due or impaired*

We agree with the proposals in 40(b) and (c), but we disagree with the requirement of 40(a), an analysis of the age of financial assets that are past due as at the reporting date but not impaired, for the following reasons:

- The definition of “past due”, based on IAS 1, would be contractual, but there could be commercial, cultural and legal reasons why the contractual due date differs from the due date in substance. An aging analysis of contractual past dues could therefore be misleading while an aging analysis of management’s past dues in substance could provide information to customers and competitors that could impede collections and competitivity

- BC31 states that an aging analysis of past dues provides users with information about those financial assets that are more likely to become impaired and helps users estimate the level of future impairment losses. We disagree on the basis that the age of a receivable is not necessarily a good indicator of its collectibility because of the diverse political, economic and cultural environments within which many entities operate