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2011-150  
Comment Letter No. 172  
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International Accounting Standards Board  
30 Cannon Street  
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March 31, 2011

**SUPPLEMENT TO EXPOSURE DRAFT “FINANCIAL INSTRUMENTS: AMORTISED  
IMPAIRMENT”**

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

## GENERAL COMMENTS

Syngenta welcomes the transition to an expected-loss model and considers it as an improvement from the current incurred loss approach contained within IAS 39. We do however believe that the supplement to the exposure draft remains heavily focused towards the financial services sector, and would support a more simplified approach for entities where the issuance of credit loans is not part of the core business activity.

Whilst the impairment model has been proposed for open portfolios of financial assets, we understand that the board is considering extending the impairment model to closed portfolios, single financial assets and potentially even trade receivables after deliberations on the revenue recognition project have been completed.

We would strongly support that trade receivables remain exempt from the impairment model due to concerns raised in our response to the *Amortised cost and impairment* exposure draft.

### **Question 1**

*Do you believe the approach for recognition of impairment described in this supplementary document deals with this weakness (ie delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?*

We welcome the transition from an incurred loss impairment model to a forward-looking, expected loss approach, and consider the proposed model as an improvement to the current standard. We believe that the model contained within the supplementary document deals with this weakness.

### **Question 2**

*Is the impairment model proposed in the supplementary document at least as operational for closed portfolios and other instruments as it is for open portfolios? Why or why not?*

*Although the supplementary document seeks views on whether the proposed approach is suitable for open portfolios, the boards welcome any comments on its suitability for single assets and closed portfolios and also comments on how important it is to have a single impairment approach for all relevant financial assets.*

To minimise complexity in the new standard we would welcome an overriding impairment model for all financial assets held at amortised cost, and would support the extension from open portfolios to closed portfolios and single financial assets.

However, we would request that some flexibility is incorporated within the standard for entities where the financial assets are not part of the core revenue-generating activities of the company. We have concerns over the extent of disclosures required (see response to 18Z), and the accuracy of forward-looking credit loss estimates for single financial assets, or assets contained within a small portfolio.

With a small population of financial assets, the accuracy that is likely to be obtained from probability-based impairment models is likely to be lower. Quantitative estimation techniques would be less reliable due the difficulty of obtaining appropriate and supportable (external or internal) data that reflects the individual assets held. The expectation of credit losses would therefore place more reliance on management judgment, resulting in a negative impact on the comparability of financial statements and potentially increase the opportunity for earnings management. We suggest an alternative approach within the response to Question 3.

### **Question 3**

*Do you agree that for financial assets in the 'good book' it is appropriate to recognise the impairment allowance using the approach described above? Why or why not?*

We agree with the principle that expected credit losses for assets held for the purposes of obtaining profit on the interest are recognised over the time-period of those assets. Where there is an indication that the assets will not be recovered, and the collectability becomes a concern, we agree that the expected impairment losses should be recognised up front in order to reflect a better representation of expected recoverability.

We would consider the separation of a 'good' and 'bad' book more aligned with the practices of the financial services industry. In the financial services industry, financial assets are interest-bearing and it is easier to make such a distinction, through the choice of whether the priority is the profitability on the interest, or the recovery of the asset. As a preparer involved in the commercial sector, we have minimal experience of interest-bearing financial assets, and a distinction between a good and bad book for non interest-bearing single financial assets would require significant judgment. All financial assets are being recovered through credit-control practices; there is a sliding scale as to the severity of the actions that are taken to recover those assets.

An alternative suggestion would be through the recognition of provisions based on a provision matrix for non-financial sector preparers; for example by recognising the provision based on the length of time a receivable exceeds their agreed credit terms; a provision of x% of 0-30 days overdue, y% for 30-60 days overdue etc. This would enable the recognition of provisions on a time-proportional basis, recognising a larger provision and charge to the income statement as the risk of non-recoverability increases. This technique would also minimize the level of judgment required by management as although the age bands and percentage provision for each band would require judgment, the identification of days past due assets does not.

We believe that it would be possible to recognise a provision for non-overdue financial assets through an actuarial review of historical losses derived from similar financial assets. Such a provision would be reliant on the availability of sufficient information, and the dedication of appropriate resources to perform the analysis.

### **Question 4**

*Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?*

As a manufacturing company, we have no experience with sophisticated credit loss modeling. The implementation process for such an impairment model would require significant resources to determine an appropriate and supportable expectation of credit losses. These estimations could more easily be obtained for financial-service preparers due to their sophisticated in-house credit management systems.

Due to the relatively small number of single financial assets held by Syngenta, we would consider recognition of the impairment allowance on a time-proportional basis would be operational. However, if the model were extended to trade receivables, the resources required to implement such a model would be overly burdensome.

### **Question 5**

*Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?*

We would consider that the proposed approach provides information that is useful for decision-making because as it would reflect a more accurate representation of the expected cash flows from the assets than the existing incurred loss model.

**Question 6**

*Is the requirement to differentiate between the two groups (ie 'good book' and 'bad book') for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?*

The differentiation between the two groups is clearly described for the instance where the assets are interest-bearing and were acquired to generate profitability from the interest payments. The criteria specified in paragraph B4 for separation between the two categories for non interest-bearing assets is less distinct and requires a threshold to be imposed by management based on practical experience. This may result in a disparity of practices and impairment recognition among IFRS preparers outside of the non-financial services sector.

We would request further guidance aimed at non-financial sector preparers (such as the indicators within IAS 39.59 (a-f)) which would ensure consistency in management's judgment at what level of credit risk deterioration the asset would be considered to be within the 'bad book'.

**Question 7**

*Is the requirement to differentiate between the two groups (ie 'good book' and 'bad book') for the purpose of determining the impairment allowance operational and/or auditable? If not, how could it be made more operational and/or auditable?*

We believe that the differentiation between the two groups would be operational by using an assessment of the aging of overdue payments based on their original credit terms. The assessment of the aging of debt when considering the level of provisions required is common practice within industry. This distinction could be made based on credit management systems that are currently in place.

**Question 8**

*Do you agree with the proposed requirement to differentiate between the two groups (ie 'good book' and 'bad book') for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?*

We consider that the separation of financial assets on a risk assessment is appropriate in order to reflect management's expectations of future cash flows which will be derived from the assets.

**Question 9**

*The boards are seeking comment with respect to the minimum allowance amount (floor) that would be required under this model. Specifically, on the following issues:*

*(a) Do you agree with the proposal to require a floor for the impairment allowance related to the 'good book'? Why or why not?*

*(b) Alternatively, do you believe that an entity should be required to invoke a floor for the impairment allowance related to the 'good book' only in circumstances in which there is evidence of an early loss pattern?*

*(c) If you agree with a proposed minimum allowance amount, do you further agree that it should be determined on the basis of losses expected to occur within the foreseeable future (and no less than twelve months)? Why or why not? If you disagree, how would you prefer the minimum allowance to be determined and why?*

*(d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?*

*(e) Do you believe that the foreseeable future period (for purposes of a credit impairment model) is typically a period greater than twelve months? Why or why not? Please provide data to support your response, including details of particular portfolios for which you believe this will be the case.*

*(f) If you agree that the foreseeable future is typically a period greater than twelve months, in order to facilitate comparability, do you believe that a 'ceiling' should be established for determining the amount of credit impairment to be recognised under the 'floor' requirement (for example, no more than three years after an entity's reporting date)? If so, please provide data and/or reasons to support your response.*

We consider that the requirement for a 'floor' is essential in a forward-looking impairment recognition model. However, the uncertainty contained within the 'foreseeable future' time-horizon would create disparity in practice, enabling earlier recognition of losses by entities with more sophisticated monitoring systems.

As a commercial preparer, the ability to forecast future losses on single financial assets based on changes in current economic conditions is considered to be extremely difficult, and we would unlikely extend beyond a twelve month period.

**Question 10**

*Do you believe that the floor will typically be equal to or higher than the amount calculated in accordance with paragraph 2(a)(i)? Please provide data and/or reasons to support your response, including details of particular portfolios for which you believe this will be the case.*

We do not operate a complex interest bearing long term financial asset portfolio, and would not be in a position to provide a reliable insight into this question.

**Question 11**

*The boards are seeking comment with respect to the flexibility related to using discounted amounts. Specifically, on the following issues:*

*(a) Do you agree with the flexibility permitted to use either a discounted or undiscounted estimate when applying the approach described in paragraph B8(a)? Why or why not?*

*(b) Do you agree with permitting flexibility in the selection of a discount rate when using a discounted expected loss amount? Why or why not?*

We agree with the flexibility proposed within the exposure draft to use either a discounted or undiscounted estimate together with the ability to select an appropriate discount rate. This would reduce the administrative burden in monitoring such an impairment model.

**Question 12**

*Would you prefer the IASB approach for open portfolios of financial assets measured at amortised cost to the common proposal in this document? Why or why not? If you would not prefer this specific IASB approach, do you prefer the general concept of the IASB approach (ie to recognise expected credit losses over the life of the assets)? Why or why not?*

We prefer the common proposal within the supplement to the IASB-only approach as a floor would be required to provide an accurate representation of any early-loss assets.

**Question 13**

*Would you prefer the FASB approach for assets in the scope of this document to the common proposal in this document? Why or why not? If you would not prefer this specific FASB approach, do you prefer the general concept of this FASB approach (ie to recognise currently credit losses expected to occur in the foreseeable future)? Why or why not?*

We also prefer the common proposal to the FASB-only approach as we consider recognition of all credit losses for the foreseeable future as too conservative.

**Question 14Z**

*Do you agree that the determination of the effective interest rate should be separate from the consideration of expected losses, as opposed to the original IASB proposal, which incorporated expected credit losses in the calculation of the effective interest rate? Why or why not?*

We strongly support the amendment from the original IASB proposal and agree that the determination of the effective interest rate should be separate from the consideration of expected losses. The proposed approach is more operationally viable. As the expected credit losses are recognised across the life of the asset through a separate calculation, the model achieves the same result through a more simplified process.

**Question 15Z**

*Should all loan commitments that are not accounted for at fair value through profit or loss (whether within the scope of IAS 39 and IFRS 9 or IAS 37) be subject to the impairment requirements proposed in the supplementary document? Why or why not?*

and

**Question 16Z**

*Would the proposed requirements be operational if applied to loan commitments and financial guarantee contracts? Why or why not?*

Syngenta is an industrial preparer and does not have any experience in commitments to provide loans below market interest rates. We are not in a position to comment on these questions.

**Question 17Z**

*Do you agree with the proposed presentation requirements? If not, what presentation would you prefer instead and why?*

We agree with the proposed presentation requirements and welcome the decoupled approach in presenting interest revenue and impairment losses separately within the statement of comprehensive income. This reduces some of the complexity from the original ED and ensures the proposals will provide clearer information within the financial statements.

**Question 18Z**

*(a) Do you agree with the proposed disclosure requirements? If not, which disclosure requirements do you disagree with and why?*

*(b) What other disclosures would you prefer (whether in addition to or instead of the proposed disclosures) for the proposed impairment model and why?*

The supplement has been prepared from the perspective of financial institutions, and the disclosure requirements support the analysis of these credit business preparers. We understand that the proposed set of disclosures needs to be comprehensive in order to achieve this. We however do consider the disclosure requirements to be excessively onerous from an industrial preparer's perspective, resulting in the creation of largely irrelevant information within the notes to the financial statements. We would welcome a revision that differentiates the level of information required by non-financial service preparers (perhaps on a business-model or interest-bearing distinction that acknowledges the concept of materiality). We do not consider that a user's decisions would be altered by disclosure of this information on single, relatively peripheral, financial assets.

We also note with concern the potential sensitivity in providing such analysis of Z7 and Z8 when there are few financial assets held with a small number of third parties.

**Question 19Z**

*Do you agree with the proposal to transfer an amount of the related allowance reflecting the age of the financial asset when transferring financial assets between the two groups? Why or why not? If not, would you instead prefer to transfer all or none of the expected credit loss of the financial asset?*

We would agree that the related allowance should be transferred when assets are transferred between the two groups. However, contrary to paragraph BZ24, we would expect any additional allowance previously recognised through 2(a)(ii) to be transferred along with the impairment allowance derived from 2(a)(i).