



Brussels, 25 February 2025

International Accounting Standards Board (IASB)
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

EFRAG
35 Square de Meeûs
1000 Brussels
Belgium

Dear Sir/Madam,

Re: Comment Letter on Exposure Draft “Provisions - Targeted Improvements – Proposed amendments to IAS 37”

Febelfin (the Belgian Banking Federation) welcomes the opportunity to comment on the Exposure Draft (ED) "Provisions - Targeted Improvements - Proposed amendments to IAS 37". We appreciate the IASB's efforts to address issues related to the recognition and measurement of provisions, contingent liabilities, and contingent assets. Our comments mainly focus on IASB's question 1 regarding the “present obligation recognition criteria”, specifically on the treatment of levies. These comments are based on the detailed review of the exposure draft and the specific points raised by our members. We have structured our comment letter into general comments followed by specific elements where we believe some unclarity exists.

General comments

We notice that the ED focuses only on two specific situations regarding levies: a levy following two separate actions and a levy when a certain threshold is exceeded. We believe such focus is too narrow and it creates some uncertainty (and hence possible divergence in practice) on how to account for levies that are differently structured. In reality, there are many different banking (and other) levies across various countries, in essence all serving the same purpose of collecting ‘sufficient funds’ for an authority. The main difference between these levies is the allocation key, i.e. different calculation methods which determine the specific contribution for each entity (of which most are calculated based on balance sheet items, some on profit and loss items). Applying the principles of the ED, we understand that in many cases the allocation key could drive the timing of recognition of the levy, which would lead to different accounting treatment for levies of similar economic nature. We believe this inconsistency does not make sense and should be addressed to ensure uniformity in accounting practices and a level playing field, which would help in providing more useful information to stakeholders and enhance comparability

across entities, especially for those operating in multiple countries. Additionally, the matching principle should be considered, as levies can be considered as a cost of doing business and should be reflected in the business performance indicators in a consistent and logical manner. A clear distinction should be made between recognition and measurement, as the ED seems to mix these two concepts.

In this context, we also refer to the criticism of IFRIC 21 mentioned in the basis of conclusions §14. In our view, the ED does not (fully) address this criticism, as several recurring levies would still be recognised as expenses at a single point in time. Stakeholders believe that the substance of a recurring levy is that the entity is paying to operate over a period, and this substance would be more faithfully represented if entities recognised the expense systematically over that period, in fact conceptually in symmetry with the underlying economic benefits earned (matching principle).

Elements of unclarity

- §1N3 mentions that the aim of the proposed amendment is to change the timing of the recognition of “some provisions”. However, based on the proposal and the included examples it remains unclear – considering the variety of levies in practice – for which type of provisions the timing of recognition will change. It is currently unclear how to make this distinction. Especially as it mentions 'Provisions for “some of these costs” would be accrued earlier and progressively instead of a later point in time'. After reading the ED and the illustrative examples, it remains difficult to interpret the principles to identify “some of these costs”. A more general principle on how to make the distinction on when to accrue or not is missing.
- §14J states that “it does not need to be certain, or even likely, that the entity will be required to transfer an economic resource”, which seems to cause some confusion needing further clarification with §14(b) “it is probable that the entity will be required to transfer an economic resource to settle the obligation”. To keep the clarification purpose of §14J and align both concepts of probability a text proposal could be: ‘For that potential to exist, it does not need to be certain, or even likely, only probable, that the entity will be required to transfer an economic resource—the transfer may, for example, be required only if the occurrence of a specified uncertain future event is probable’.
- §14O refers to “the resulting present obligation accumulates”. When referring to the three conditions of recognizing a provision, being 'Present obligation re. past event for which a reliable estimate can be made', it seems odd to assume a growing present obligation. The principle put forward in §14O seems to confuse the measurement basis of a levy (that accumulates) with the event creating the present obligation (mostly event driven, i.e. being a bank or not, exceeding a threshold or not, ...).
- §14Q refers to “two (or more) separate actions”. Looking at Example 13A and applying this to another type of bank levy, where the first action could be having deposits in X-1, and in addition having no practical ability to revoke the banking license within 1 year (i.e. being a bank on 1/1/X is the trigger for the levy), should the fact that there is no practical ability to revoke the banking license really be considered the second action or is this merely a continuation of an activity (in line with the going concern principle)? Furthermore, given, in this case there is no threshold and unlike P&L, balance sheet positions are fairly stable, does this mean that quasi the full levy would need to be recognized on January 1 X-1 (so one year earlier than under IFRIC 21)? Additionally,

wouldn't this imply a contradiction between §14O (recognition over time) and §14P (At any date within the assessment period, the present obligation is a portion of the total expected obligation for the assessment period. It is the portion attributable to the activity carried out to date.), whereby the portion attributable equals deposits on 1/1/X-1, and as such no accumulation? To build further on this unclarity, what would this imply for levies which are calculated based on X-2 balance sheet positions (i.e. Single Resolution Fund (SRF)), because over a period of two years it could be argued that there is a possibility to avoid taking the second action (i.e. revoke license)? Adding the SRF levy as an example would be very helpful. Finally, it remains unclear what implications this would have on interim reporting periods. The timeframe of having no practical ability to avoid is very judgmental and hence would contribute to divergence in practice.

- Example 13B: it could be helpful to expand the conclusion of this example with the implications for interim reporting periods.
- The distinction between two actions in Example 13B and only one action in Example 13C is not clear. At January 1, the assumption can be made that the first action 'performing business' is not avoidable (i.e. ceasing the business activities before the end of annual reporting date would be significantly more adverse than the cost of paying the levy charged for that period) and when no intention exists to sell the building before year-end (and in addition at some point it would no longer be practically feasible to sell the building anymore before year-end), we can assume the outflow is probable and as such 'accumulation of recognizing the levy' is defensible. Hence, according to us also example 13C can be interpreted as two separate actions being (i) doing business and (ii) holding the building at December 31.

Conclusion

In conclusion, while we support the IASB's efforts to improve the recognition and measurement of provisions, we believe that the current exposure draft needs further refinement to address the issues raised above, to avoid diversity in practice and to fully address the criticism on IFRIC 21. As a guiding reference we prefer an outcome whereby all levies are accumulated following the matching principle in line with the spirit of §14O. Hence, we recommend that the IASB considers a more general principle for accruing provisions and provide clearer guidance and examples to ensure consistent application across different types of levies.

We appreciate the opportunity to provide our comments and are available to discuss any questions you may have regarding our feedback.

Yours faithfully,



Karel Baert

CEO

