

EFRAG Sustainability Reporting Board
35 Square de Meeüs
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Exposure Draft: Provisions – Targeted Improvements – Proposed amendments to IAS 37

The Danish Funding Mechanism for EFRAG consisting of the above-mentioned organisations representing large parts of the Danish Business Community and both preparer and user perspectives (we) welcome the opportunity to comment on the IASB's proposed amendments and EFRAG's draft comment letter (EFRAG DCL).

Since this hearing takes place during the busy year-end period for both preparers, users and auditors, we unfortunately can only provide the following high-level comments:

Q1 – Present obligation recognition criterion

We agree with EFRAG that there are arguments both in favour (EFRAG DCL, para 7) and against (EFRAG DCL, para 8) the proposed changes.

Overall, we are not convinced that the proposed changes, along with the resulting increased complexity and mix of recognition and measurement criteria, represent an improvement compared to IFRIC 21 levies practices which preparers, users, and auditors have learned to live with.

Should the IASB nevertheless decide to proceed, it is, in our opinion, crucial that the IASB also addresses asset-/liability-based levies, which are common in the financial sector, and especially the impact on P/L in interim reporting. One of the main criticisms of the IFRIC 21 interpretation has been that it often results in the recognition of a full year's levy in a single interim period rather than accruing the related provision over the accounting year in which the company benefits from operating and generates its income.

If the changes only result in an earlier recognition of levies because the first of two or more conditions is met, but still lead to recognition of a full year's levy (or even more years' levies) in a single interim period rather than accruing the related provision over the accounting year, the IASB would not have succeeded in addressing this main criticism. In such a case, from both a preparer and user perspective, the IASB should, in our opinion, refrain from incorporating the proposed changes.

Beyond this, we have no additional comments to the EFRAG DCL.

Q2 – Measurement – Expenditure required to settle an obligation

We support the IASB proposal to specify which costs shall be included in the measuring of a provision and agree that it does not result in the most useful information to consider different types of costs when assessing whether a contract is onerous and when measuring the onerous contract provision.

However, some of our constituents have informed us that their current practice is to include only incremental costs, and they could face significant administrative burdens having to change their practice to include directly attributable costs.

Thus, we call for additional guidance on what types of directly attributable costs should and could be included when measuring the provision, e.g. in situation of legal provisions.

Q3 – Discount rates

We support the IASB proposal to specify that a risk-free rate, excluding non-performance risk, as the financial statements are prepared under a going concern assumption, shall be used to discount a provision within the scope of IAS 37 and have no additional comments to the EFRAG DCL.

Regarding inflation expectations, cf. EFRAG DCL, para 52, we agree that the impact on the IFRS 18 P/L categories of unwinding the discount will differ depending on whether inflation is included in or excluded from the cash flows. Thus, the IASB should address this matter – also to ensure that inflation is not double counted or not counted at all.

We have no empirical data, but our impression is that most companies use an approach where future cash flows are expressed in expected future prices discounted with a nominal rate, which includes a return to cover expected inflation. We therefore propose that IASB prescribes this approach.

Q4 – Transition requirements and effective date

We support the proposed transition requirements, including the retrospective application for the amendments to the present obligation recognition criterion to avoid the risk of having two annual levy charges recognised in one accounting year, and have no additional comments to the EFRAG DCL.

Q5 – Disclosure requirements for subsidiaries without public accountability

We have no additional comments to the EFRAG DCL.

Q6 – Guidance on implementing IAS 37

As mentioned above regarding, “Q1 – Present obligation recognition criterion”, we believe that IASB should only proceed if provisions related to annual levies are accrued over the accounting year in which the company benefits from operating and generates its income, rather than recognising a full year’s levy in a single interim period.

Against this backdrop, we propose clarifying the conclusion in “*Example 13B – A levy on an entity operating as a bank on the last day of its annual reporting period*” as follows:

“Conclusion – The present obligation accumulates and the related provision is therefore accrued over the annual reporting period. At the end of the annual reporting period ~~–~~ the full provision is recognised for the best estimate of the levy that will be charged for the reporting period.”

Beyond this, we have no additional comments to the EFRAG DCL.

Q7 – Other comments

We have no additional comments to the EFRAG DCL.

Kind regards,
The Danish Funding Mechanism for EFRAG

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