



**EFFAS**<sup>®</sup>

The European Federation  
of Financial Analysts Societies

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**Contact: Raquel Zaragoza**

24 February - 2025

**Re:** EFRAG DCL on IASB ED *Provisions—Targeted Improvements*

Dear Mr. Klinz,

The EFFAS Commission on Financial Reporting (“Commission”, “We”) would like to express its general views on EFRAG’s DCL on the IASB’s ED *Provision – Targeted Improvements*.

The Commission by and large agrees with EFRAG’s comments supporting the ED and the IASB approach of targeted improvements to specific aspects of IAS 37. Amending specific points of the Standard will facilitate its implementation and understanding.

The Commission continues to support EFRAG’s comprehensive and high-quality documents although we stress the need for conciseness, simplicity and to avoid density and repetitiveness.

Regarding the points addressed in EFRAG’s DCL, we would like to comment as follows:

***1.- Amendment to the present obligation recognition criterion***

The Commission supports EFRAG’s comments and agrees with the suggestion of providing additional guidance related to when an entity recognizes a provision. Guidance will facilitate the implementation and provide additional comparability. Also, we think that EFRAG’s suggestion of paragraph 11 will make the revised IAS 37 more understandable.

Regarding the ED amendment proposing to recognize provisions over different periods of time, we think that it will be consistent with the basis for recognition of the provision, for instance revenues, and not only when several conditions are met at the same time.

Also, we consider the ED proposal to update both the definition of a liability in IAS 37 and the present obligation criterion with the definitions within the meaning in the Conceptual Framework to be positive steps for consistency. Including illustrative examples in the amendments will contribute to a better understanding of the impact of the proposed changes making the timing of the recognition of a provision more comparable.

EFFAS comments on: ***EFRAG DCL on IASB ED Provisions—Targeted Improvements***



We would again like to underline that EFRAG should present clear and concise arguments. For users, it is difficult to follow a 15 pages point of dense discussion.

### ***2.- Amendments to the costs to include in measuring a provision.***

The Commission endorses EFRAG's support of the ED proposal related to the costs that relate directly to the obligation.

As stated in the ED - and noted in EFRAG's DCL - the expenditure required to settle an obligation comprising the costs related directly to the obligation should be included in measuring the provision. As stated, these costs could consist of (1) the incremental cost of settling the obligation and (2) the allocation of other costs that relate directly to settling obligations of this type.

### ***3.- Discount Rates***

The Commission agrees with EFRAG's views supporting the IASB's proposal regarding the discount rate. We consider that an entity should calculate the future expense to settle an obligation using a rate that reflects the current market assessment of the future cost of money as measured by the risk-free rate. We agree that this rate that excludes non-performance-risk is to be used to discount a provision within the scope of the IAS 37.

For users, using the discount rate based on the risk-free rate will reduce diversity and limit potential arbitrage. The amendment will improve homogeneity and enhance comparability for IFRS reporting entities.

It should be noted that this is a significant amendment particularly for companies with investments in medium and long-term assets such as the energy and telecommunication sectors.

### ***4.- Disclosures***

We think that entities should disclose the discount rate used in calculating the present value of the provision and how the entity has determined the appropriateness for the use of the rate. Disclosing this information will facilitate comparing entities that make similar calculations using different risk-free rates. Also disclosing this information will show the homogeneity of its application.

In reference to disclosure requirements for subsidiaries without public accountability the Commission agrees with EFRAG that the IASB should provide clarification on the reduction of disclosure requirements on IFRS 19. A change in the approach will affect its application.

### ***5.- Transitional provisions and Effective Date***

Regarding transitional information we agree with EFRAG, as pinpointed in paragraph 67 of the DCL, that for users providing the application of changes in accounting policy retrospectively is useful. Disclosing changes in the reporting and the reasons for these changes facilitates understanding.



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Regarding the transitional date or the initial date of application, we think that it should be at the beginning of the annual reporting period for which the entity provides comparative information. Moreover, we think that the application of the amendments should be at the beginning of the second year from the publication of the amendments. For instance, if the amendment is in the third quarter of 2025 the effective date should be at the beginning of 2027.

To do this, we agree with EFRAG and the ED that when applying the effective date entities should have sufficient time to prepare for the new requirements and earlier application should be permitted.

#### **6.- Other comments**

No further comments.

If you would like to discuss the views expressed in this letter further, please contact us.

Javier de Frutos, Chair  
EFFAS Commission on Financial Reporting

*EFFAS was established in 1962 as an association for nationally based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 14-member organizations representing more than 16,000 investment professionals. The Commission on Financial Reporting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst standpoint. CFR members are Javier de Frutos (Chairman, IEF-Spain), Jacques de Greling (Vice-Chairman- SFAF, France), Friedrich Spandl (ÖVFA, Austria), Henning Strom (NFF, Norway), Serge Pattyn (BVFA/ABAF, Belgium), Luca D'Onofrio (AIAF, Italy), Dr. Carsten Zielke (DVFA, Germany), and Andreas Schenone (SFAA, Switzerland) and Mihail Stan (Romania).*