International Accounting Standards Board
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United Kingdom

EFRAG
35 Square du Meeûs
1000 Brussels
Belgium

Brussels, 28 February 2025

Dear Sir/Madam,

Re: Comment on IASB Exposure Draft: Provisions - Targeted Improvements - Proposed amendments to IAS 37

Assuralia is writing to you on behalf of the Belgian insurance sector to provide our comments on the IASB Exposure Draft: Provisions - Targeted Improvements - Proposed amendments to IAS 37 as published on the 12th of November 2024. We would like to very much welcome the opportunity to contribute to this important consultation and commend the IASB for its ongoing efforts to enhance the clarity and relevance of financial reporting standards. We have closely examined the proposed amendments to IAS 37, particularly the implications of IFRIC 21 Levies and therefore would like to share our comments related to the accounting treatment of levies, based on the exposure draft and feedback related to this exposure draft we have received from our Members. We believe that the proposed amendments, including the deletion of IFRIC 21 and the allowance for gradual recognition of levies, would significantly improve the quality of financial reporting for insurance companies.

Context

Since the publication of IFRIC 21, most Belgian insurers recognize taxes during the first quarter of the year instead of spreading them over the year. This concerns for example the contribution to the Special Protection Fund for deposits and life insurance, the property tax and the subscription tax. Assuralia had advocated a pragmatic application of IFRIC 21 at the time with the Belgian federation of Auditors but there was never an official reaction.

The interpretation of the paragraph has provoked a lot of discussion between insurance companies and their auditors. Consequently, the result of the lack of common interpretation is that in practice we see that Belgian insurance companies are applying the standard differently.

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The current requirements under IFRIC 21 mandate the recognition of liabilities for levies at a single point in time, which often does not align with the economic reality of the insurance business. Insurance companies typically incur levies over a period and recognizing these costs progressively would provide a more accurate representation of financial performance and position.

The proposed amendments to IAS 37, particularly those addressing the issues raised by IFRIC 21, aim to provide clearer guidance on when to recognize provisions and how to measure them. The proposed changes address stakeholder concerns that IFRIC 21 did not adequately reflect the economic reality of recurring levies. By allowing for the systematic recognition of expenses over the period they relate to, the amendments align more closely with the matching principle.

Under IFRS 17, provisions and CSM are recognized based on the present value of future cash flows, including an explicit risk adjustment for non-financial risks. The CSM represents the unearned profit and is released to profit or loss over the coverage period of the insurance contracts. According to IFRIC 21 levies are recognized as liabilities when the obligating event occurs, which is the activity that triggers the payment of the levy. The timing and amount of the levy are certain, and the liability is recognized in full at that point.

The CSM is amortized over the period during which the insurance services are provided, reflecting the pattern of transfer of services. This approach ensures that the financial impact is spread over the coverage period. However, levies are recognized as expenses in full when the obligating event occurs. One could argue that the economic burden of the levy is incurred over the period the entity operates in the market, similar to how insurance services are provided over time. By spreading the levy expense over the period it relates to, it better matches the economic benefits derived from operating in the market, providing a more accurate reflection of the entity's financial performance.

Overly prudent reporting of levies could result in a less true and fair view of the financial statements across the entire accounting year. Though early recognition from a prudential point of view makes sense, it does not necessarily mean the same goes for IFRS statements where one of the key elements is the concept of a true and fair view of the financial information at any given moment in time. If such a method were to be systematically applied to other costs as well, you risk presenting a distorted view, especially in the first quarter (e.g. similar discussions around dividend payments) – a distorted view in the first quarter of the accounting year which is economically difficult to justify to shareholders and, more broadly, to all stakeholders simply because of the fact that it does not reflect significantly different economic activities during that period.

A gradual consideration of the levies does not mean a postponement to the last quarter of the accounting year. They should be accounted for in line with the business activity.

Gradual recognition of levies
Allowing for the staggered recognition of the cost of government levies in financial results would offer several benefits:

1. **Alignment with Economic Reality**: Progressive recognition of levies would better reflect the ongoing nature of these costs, aligning financial reporting with the actual economic activities of insurance companies.

2. **Improved Financial Reporting**: This approach would enhance the comparability and transparency of financial statements, enabling stakeholders to gain a clearer understanding of the financial impact of levies on insurance companies.

3. **Consistency with Other Standards**: The proposed amendments would harmonize the treatment of levies with other accounting standards that recognize expenses over the period to which they relate, simplifying the accounting process and reducing administrative burdens.

4. **Stakeholder Support**: Our position is supported by various stakeholders within the Belgian insurance sector, including the external auditors. There is a consensus that the current approach under IFRIC 21 does not adequately reflect the operational realities of the industry.

Conclusion
In conclusion, we believe that the proposed amendments to IAS 37, including the deletion of IFRIC 21 and the allowance for gradual recognition of levies, would significantly improve the quality of financial reporting for insurance companies. We appreciate the IASB's efforts to address these issues and look forward to the implementation of these targeted improvements.
Early provisioning or booking of a cost for government levies does not necessarily lead to a better representation of the financial position or a more accurate financial result of a company.
Therefore, we would like to share our support to the deletion of IFRIC 21 and to allow a gradual recognition of the cost of government levies in the result.

Thank you for considering our comments. We are available for further discussion and would be pleased to provide any additional information or clarification as needed.

Yours faithfully,

Hein Lannoy, CEO