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12 March, 2025

International Accounting Standards Board (IASB)
IFRS Foundation
Columbus Building, 7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom
Submitted electronically

Re: IIF's Public Comment Letter on the IASB Exposure Draft Provisions—Targeted Improvements

Dear Sir or Madam,

The Institute of International Finance (IIF)[1] and its members, which broadly represent the global financial services industry, are pleased to submit industry perspectives in response to the International Accounting Standards Board (IASB or the "Board") Exposure Draft on "Provisions—Targeted Improvements: Proposed amendments to IAS 37."[2]

The IIF appreciates the IASB's objective to improve the requirements for recognizing and measuring provisions and we are generally supportive of the proposals in the Exposure Draft (ED), to align the definition of a liability in IAS 37 with the Conceptual Framework for Financial Reporting. However, we have concerns in certain areas where we believe there is a lack of clarity regarding the application of the present obligation proposals. Additionally, we are concerned about the potentially significant implications to preparers of financial statements resulting from the proposed amendments related to allocations of expenditures, transition provisions and the climate-related example included in the implementation guidance. We have outlined these concerns and associated recommendations in more detail below.

Q1 Present Obligation recognition criterion

We appreciate the IASB's efforts to clarify the present obligation criterion by incorporating the Conceptual Framework definition of a liability into IAS 37 and leveraging the extensive

[1] The Institute of International Finance (IIF) is the global association of the financial industry, with about 400 members from more than 60 countries. The IIF provides its members with innovative research, unparalleled global advocacy, and access to leading industry events that leverage its influential network. Its mission is to support the financial industry in the prudent management of risks; to develop sound industry practices; and to advocate for regulatory, financial, and economic policies that are in the broad interests of its members and foster global financial stability and sustainable economic growth. IIF members include commercial and investment banks, asset managers, insurance companies, professional services firms, exchanges, sovereign wealth funds, hedge funds, central banks, and development banks.
[2] "https://www.ifrs.org/content/dam/ifrs/project/provisions/2024-ed/iasb-ed-2024-8-provisions-ti.pdf"

analysis used to develop that definition. In particular, we support the IASB's efforts to clarify the application of IAS 37 to bank levies – an area where we have found IAS 37 difficult to apply and which has led, in our view, to counter-intuitive results. In this regard we support what we understand as the IASB's intention for these proposals (as set out in paragraphs 14M-R of the ED as described in paragraphs BC34-36),i.e., that bank levies that an entity has no practical ability to avoid, are accrued as and when the entity takes one or more earlier actions that obligate it to pay the levy. This could result in an entity evenly accruing the levy over the period to which the levy relates. However, upon reviewing the proposals our members remain uncertain about how the provisions apply to specific levies and specific circumstances, such as when the reporting period or the calculation period and the date on which the levy is charged are not aligned. We therefore believe further clarification is needed. Such clarification may come in the form of amendments to the proposed changes to the standard or implementation guidance. Consequently, we have grouped our comments together in our response to Q6 below.

Q2 Measurement - Expenditure required to settle an obligation

We appreciate the IASB's efforts to provide guidance specifying the costs an entity should include in estimating the future expenditure required to settle an obligation (paragraph 40A), but we are concerned with the proposal to align the type of costs that an entity includes as an expenditure to settle an obligation with the existing requirement to include costs for onerous contracts in paragraph 68A of IAS 37. Costs considered in an onerous contract assessment are those that are necessary to fulfil a contract while a provision should include the unavoidable costs to settle the obligation. In practice, this is usually the amount paid to settle the obligation. We are concerned that the proposal to include an allocation of other costs, for example staff costs as part of measuring a provision is not aligned with the economic reality of the costs required to settle the obligation. We believe the existing guidance provided in paragraph 36 in IAS 37 is sufficient and appropriate.

We are also concerned that this proposal will add operational costs and complexity to existing processes, potentially requiring new tools to accurately track and allocate internal costs to measure provisions. In measuring provisions that do not settle for an extended period, such as asset retirement obligations, judgment would be required to determine the types and amounts of additional costs to include and to estimate these costs into the future which would arguably increase in estimation uncertainty compared to current practice. In addition, entities would each adopt their own approach to allocating costs, which would reduce comparability between entities for the same type of provisions. We question the value this proposal will add for users of financial statements.

We also note that the proposals in paragraph 40A of the ED (and paragraph 68A of IAS 37) differ from the definition of transaction costs in IFRS 9, which includes only incremental costs directly attributable to the acquisition, issue, or disposal of a financial asset or financial liability. We are therefore unclear why the costs to be included when measuring a provision are broader than incremental costs, i.e., they also include an allocation of other costs directly related to settling obligations of that type, and what those other costs may be.

Q3 Discount Rate Changes

We agree with the proposed discount rate requirements and related disclosure requirements.

Q4 Transition and Retrospective Application of Provisions

Except for specified transition exceptions related to the guidance on costs and discount rates, the proposals in the ED are to be applied retrospectively. Given the proposals in the ED may result in earlier recognition of some provisions e.g. those related to thresholds, we are concerned that full retrospective application may require that a provision is established from the transition date.

We therefore recommend that the IASB provide an option for a modified retrospective approach, allowing entities to apply the amendments only to outstanding obligations at the date of transition, with no restatement of comparative information. This could help alleviate the operational burden especially in cases where preparers present 2 comparative periods and not just 1 comparative period and address concerns about the use of hindsight to recreate a provision from the transition date. Allowing such choice would be consistent with the transition requirements in IFRS 9, IFRS 15, IFRS 16.

Q6 *Guidance on implementing IAS 37*

Examples 13A and 13B on Levies

We believe it is critical that following the publication of final amendments that there is no diversity in practice regarding individual levies. We understand the proposed amendments are partially in response to feedback indicating that recording the levy obligation relating to different periods in a single quarter is confusing to users of accounts and does not faithfully represent the entity's performance during that period. We recommend that the final guidance results in recognising the levy evenly over the period to which the obligation of operating as a bank or holding a banking license relates. However, we are uncertain whether the application of paragraphs 14Q and 14O of the ED to certain bank levies in specific situations achieve that outcome, particularly when the levy calculation period and the entity's reporting period are not aligned. We therefore recommend Examples 13A and/or 13B are expanded to directly address the following situations:

- The UK Bank Levy reported in an entity's Interim financial statements. In most cases, the UK Bank Levy's chargeable period and an entity's annual financial reporting period will be the same unless the entity commences operations during the reporting period. Therefore, whether the entity accrues a provision over the annual financial reporting period (applying paragraph 14Q of the ED) is generally not relevant to its annual financial statements. However, the application of paragraph 14Q to the entity's interim financial statements is relevant and, in this context, our members are unclear about what amount to accumulate over the interim period. Take the example of a bank operating on 01.01.XX that has no practical ability to avoid operating from that date until 31.12.XX and who estimates its levy charge at the end of the year will be £10m. In its interim financial statements for the six months ended 30.06.XX, should the bank record a provision of £5m (6mths/12mths x £10m) or £10m on the basis the action of operating during the reporting period has been taken and it has no practical ability to avoid payment of the estimated levy at the end of the annual/chargeable period?

- The Bank of England levy, where the amount of the levy is calculated on financial data in a 3-month reference period in the preceding year (July to September 20X0) and applied for a levy year starting 01.03.X1 and invoiced in July 20X1. The amount invoiced includes the amount payable for the current levy year and, depending on the entity's eligibility status in the preceding or the coming year, a true-up amount. The lack of clarity regarding whether a bank can accrue the cost over the relevant period leads to different potential conclusions:
  - Recognize a provision for the best estimate of the annual amount prior to 1.3.X1 (before the levy is due) because the bank concludes that it has no practical ability to avoid being eligible on 1.3.X1. This could either be at September 20X0 (for a larger institution that could not take actions to fall outside scope of the levy within six months or later if a smaller entity.
  - Recognize a provision for the best estimate of the annual amount on 1.3.X1 (being the start of the Bank of England financial year) and satisfying the conditions that the bank was eligible for the charge on that date and no ability to reduce the amount even if it ceased to become eligible later in the period (this is general conclusion that would be reached under the requirements of IFRIC 21). Following receipt of invoice in July, the charge would be corrected with amended provision.
  - Recognize a cost evenly over the period from 1.3.X1 to 28.02.X2 for the full amount of the levy recognising that it relates to the bank's operations over that period. This would be recorded as an accrual in the period March to July 20X1 and post-invoice recognised as a prepayment. This appears to reflect the proposed wording, but there is not total clarity.
  - Recognize a cost evenly over the period 1.3.X1 to July 20X1 (receipt of final invoice) and then charge the full remainder to P&L on settlement of the invoice.
- Another example of a Bank levy where it is unclear on how the guidance under IAS 37.14Q should be applied is the EU Single Resolution Fund (SRF) levy. The SRF levy has the features that a banking license needs to be held at for example 1.1.X2. The calculation for the levy has several inputs including the last audited balance sheet which would need to be submitted on 31 January X2 (which in this example would be the balance sheet as at 31.12.X0). There are other inputs including risk factors of the bank but also inputs from averages across banks where estimates need to be made. It is unclear to members whether there are two separate actions (having a balance sheet and holding a license) or a single action (holding a license). A number of preliminary interpretations exist in applying the new guidance to the same scheme with a wide range of outcomes including:
  - Recognize a provision for the annual amount on 1.1.X2 in the first quarter of X2. This approach is based on the interpretation that there is a single action in this case being the license held on 1.1.X2.
  - Recognize a provision on 31.12.X0 or as soon a reliable estimate of the amount to be paid can be assessed (and upon transition recognize several years through equity). This approach is based on there being 2 separate actions, whereby the first action is met when the basis for the calculation of the amount to be made are available and the second action is met at the same time if management judges that there is no practical ability to avoid the second action, holding a banking license at 1.1.X2, so that the past event condition is met. 10
  - Recognize provision progressively in X0 (and upon transition recognize several years through equity.) This approach is based on there being 2 actions and similar to example 13B the obligation accumulates over the annual reporting period.

- There could be other outcomes if the first trigger is considered to be when the audit report of the balance sheet is published which would only be issued in March 20X1.

Additionally, it would be beneficial to provide further guidance on how prepayments and payments on account impact the levy and the associated accounting. We note that IFRIC 21 paragraph 14 and IFRIC Update Jan 2019 previously gave some guidance on this point.

Examples 15 – Climate-related commitments

We recommend that the Board reconsider the proposals in Example 15 in the Guidance on implementing IAS 37. We are concerned that Example 15 provides an overly simplified analysis of the complex and evolving topic of climate-related commitments, targets and transition plans. This may lead to potential over-interpretation and unintended consequences, particularly as climate-related commitments are subject to increasing scrutiny from a broad range of stakeholders with different, and often competing, interests.

In particular, the analysis of whether the fact pattern creates an obligation condition appears overly simplified and does not reflect the complex and competing factors that may impact an entity's ability to realize its commitments. The example provides no indication as to which facts and circumstances were relevant to reach the conclusion, or how they have been weighed against each other. Example 15 appears to arrive prematurely at a conclusion that the entity owes a responsibility to society and that the entity has no practical ability to avoid discharging its responsibility. Given the evolving nature of climate commitments and actions, entities' actions on climate change are often voluntary and aspirational, and communicated publicly as such, including because they may be dependent on broader government, societal or scientific developments. The example does not consider that entities may modify or retire voluntary commitments if they are no longer reflective of the entity's operating environment or outlook, including with respect to broader governmental policies or societal or scientific developments, as evidenced by the recent withdrawals by certain companies of their climate-related commitments.

Given this is an area of significant judgement, we recommend, at a minimum, that the Board expand and deepen the analysis in Example 15, including by incorporating more of the analysis from the Climate-related Commitments IFRS Interpretation Committee (IFRIC) agenda decision ("the agenda decision"), which was published in the March 2024 IFRIC Update and examined a similar fact pattern to the one presented in Example 15. In particular, while the agenda decision identifies that an entity would need to apply judgement and consider the relevant facts and circumstances to determine whether it has a constructive obligation, the agenda decision does not attempt to provide a definitive conclusion on whether there is a constructive obligation in this fact pattern. This approach would enable entities to weigh their own facts and circumstances, without the potential for overinterpretation or misinterpretation resulting from a conclusion on the existence of an obligation condition in Example 15. We also suggest incorporating more of the analysis from the agenda decision relating to the "present obligation as a result of a past event", to highlight that provisions are not recognized for future operating costs and that neither stating a commitment nor taking actions that affirms the entity's intention to fulfil that commitment are events that create an obligation. If the guidance is expanded, we suggest that the Board provide a further opportunity to comment on these proposals given the complexity and diversity in fact patterns associated with climate-related commitments.

Location and Nature of Guidance

We think the updated Decision Trees in Section B of the Implementation Guidance is particularly helpful. The Decision Trees are helpful in illustrating the impact of uncertainty in applying both the present obligation condition and transfer condition. In this regard, the Decision Tree in B1 provides some additional guidance on the application of paragraph 15 of the ED, namely that it applies where there is uncertainty due to unclear facts and circumstances. For these reasons we think the Decision Trees would be better presented within IAS 37 itself as authoritative application guidance. This presentation would be consistent with placement of decision trees in other IFRSs.

Q7 ***Other Comments***

We have no other comments.

Thank you again for taking our views into consideration, which we hope will be useful as you consider how to take this project further. In closing, we would like to reiterate our main points from across our response letter:

We thank the IASB for its consideration of our comments and welcome any additional stakeholder engagement around this topic. If you have any questions, please do not hesitate to contact Martin Boer at mboer@iif.com or Ryutaro Takayama at rtakayama@iif.com.

Sincerely,

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Institute of International Finance (IIF)