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Subject: European Association of Cooperative Banks comments on the IASB Exposure Draft "Provisions – Targeted Improvements – Proposed Amendments to IAS 37"

Dear Dr Barckow,

The European Association of Cooperative Banks (EACB) gladly takes the opportunity to comment on the IASB's Exposure Draft *Provisions – Targeted Improvements – Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets* published on 12 November 2024.

We welcome the IASB's objective to align the definition of a liability in IAS 37 and the current recognition criteria with those of the Conceptual Framework. We also acknowledge the IASB's efforts to address stakeholder concerns regarding IFRIC 21, particularly in relation to the recognition of levies and their economic substance.

However, we have significant concerns regarding the proposed amendments, specifically whether they would enable the recognition of expenses for recurring bank levies over time or merely lead to earlier recognition without providing more meaningful information to users.

The recognition of a provision for levies depends on the conversion of the characteristics of a levy into actions and thresholds. The IASB's proposals (paragraphs 14M-14R) require as having met the past-event condition as soon as it has taken any of the actions (i.e. the first of the actions) and it has no practical ability to avoid the remaining actions. However, this requirement is challenging to apply in practice and raises questions about how to distinguish an action that gives rise to a present obligation from the calculation basis used to determine the amount of the levy. Therefore, we believe the IASB should clarify the notion of "entity's action(s)" to ensure more consistent application.

To illustrate our concerns, a common example of a bank levy in the EU is the contribution to the European Deposit Guarantee Fund (Single Resolution Fund). These contributions become due if an entity qualifies as a credit institution on January 1 of year N. The amount of the contribution depends on – amongst other factors – the size of the credit institution's balance sheet as of 31/12/N-2, is impacted by entity-specific risk factors, inputs from averages across banks and the size of the Single Resolution Fund itself relative to its target level.

The voice of 2.500 local and retail banks, 89 million members, 225 million customers in EU

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Under IAS 37.14Q, Examples 13B and 13C, it is unclear whether in case of the Single Resolution Fund contributions there are two or more actions or only one (being a credit institution as at 1/01/N). Under IFRIC 21, banks currently recognise contributions as of 1/01/N. We are concerned if the IASB's proposals might result in an earlier recognition of the provision, despite significant measurement uncertainty.

Moreover, we believe the IASB should separate the approach for provisioning levies and the requirements related to a present obligation recognition criterion, in order to ensure that the targeted improvements to IAS 37 are effectively achieved. Finally, we believe that performing field tests based on existing levy cases would be helpful to inform a refined version of the Exposure Draft to be reissued.

Nina Schindler
EACB Chief Executive Officer