

 The Managing Director

To:
Andreas Barckow
Chair of the International Accounting Standards Board
IFRS Foundation
Columbus Building, 7 Westferry Circus
Canary Wharf
E14 4HD London
UK

Brussels, 23 November 2022

Subject: Urgency of addressing the SPPI assessment for ESG features

On behalf of the European Savings and Retail Banking Group (ESBG)¹ we are writing to you to express our view on the urgency of delivering the solution for the SPPI assessment of ESG² features on a timely manner. We are concerned about the IASB decision, announced on 24 October, that the ESG topic will be addressed alongside with other open IFRS 9 issues.

ESBG members follow these developments closely. We appreciate the steps taken by the IASB for the SPPI assessment related to ESG-linked cash flows variability. After identifying the issue in the IFRS 9 PIR the IASB addressed the topic expeditiously. We believe that the solution proposed at the July and further exemplified at the September IASB meetings would provide the necessary SPPI-conform treatment to common cases of loans (or bonds) having the ESG features. In October 2022 the IASB made tentative decisions regarding disclosures, transition and effective date. As a result, the main steps for publishing the exposure draft have been completed.

The publication of the exposure draft was originally planned for Q1 2023. The IASB was aware of the urgency of the topic. At its June 2022 meeting the IASB only planned to merge the ESG issues with the contractually linked instruments topic. In order to meet the Q1 2023 planned publication of the exposure draft, the IASB was even ready to detach the ESG amendments if the other topic proved to require a more extensive analysis.

However, the most recent decision made by the IASB announced on 24 October could significantly delay the solution. The IASB will merge this topic with IFRS 9 amendments in three other areas:

- contractually linked instruments;

¹ <https://www.wsbi-esbg.org/About-us/About-ESBG>

² We understand that the IASB is addressing the topic of cash flow variability from a broader perspective than just for the ESG features. The reference to ESG in this letter should be understood for convenience purposes and is also used because this topic was the trigger for addressing the issue by the IASB and the main concern of banks.



- electronic cash transfers; and
- equity instruments and other comprehensive income.

The IASB's deliberations on the first two topics have not progressed so far as for the ESG topic. The exposure draft is now planned to be issued in H1 2023. In our view, these topics have more potential to cause diverging feedback and thus delay the final amendments further.

Comparably to the ESG topic, the equity instruments and other comprehensive income topic has been deliberated to its final stage by the IASB. The ESBG considers the proposed two minor amendments of disclosure requirements to be helpful.

To stress the urgency of the ESG topic we note that these features are becoming a market standard for large corporate lendings. Based on a recent detailed analysis performed by one of our member banks for Q3 2022, loans where the interest margin is adjusted based on the borrower meeting specific ESG targets account for 5% of the large corporate lending portfolio. More than 70% of this volume dates to the three quarters of 2022, which shows a rapid increase in using such features.

The ESBG members would appreciate if the IASB addressed the ESG topic separately and proceeded to issuing the exposure draft as originally planned in Q1 2023. Considering the advanced stage and the content of the decisions made by the IASB for the topic of equity instruments and other comprehensive income, we suggest that it would also be included in the exposure draft.

Sincerely yours,

A handwritten signature in blue ink, appearing to read 'Peter Simon'.

Peter Simon
ESBG Managing Director

About ESBG (European Savings and Retail Banking Group)

The European Savings and Retail Banking Group (ESBG) represents the locally focused European banking sector, helping savings and retail banks in 16 European countries in strengthening their unique approach that focuses on providing service to local communities. Our members commit to responsible banking and serve **163 million Europeans** seeking retail banking services and boosting SMEs. As savings and retail banks of all sizes and legal forms, we play an essential role in providing the diversity crucial to maintaining the stability of the financial system.