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An alternative own use model

Objective

1 The objective of this paper is to present and explain an alternative approach to the "own use" exemption in paragraph 2.4 (and more) of IFRS 9. The alternative approach is not an interpretation of current IFRS 9 literatures, but a suggestion for a possible alternative amended version of IFRS 9 (and IFRS 7).

Structure of the paper

2 This paper has the following structure:

(a) A high-level explanation with some references to the current own use model is presented in paragraphs 3 to 14.

(b) A high-level explanation on how the alternative model would affect Power purchase Agreements is presented in paragraph 15 to 21.

(c) The proposed amendments to the standard text of IFRS 9 and IFRS 7 is presented in paragraph 22 to 29.

(d) A condensed motivation for the proposed amendments to each paragraph in IFRS 9 and IFRS 7 is presented in appendix A (page 6 to 7).

(e) A question and answer-based simulation of how to apply the proposed amendments is presented in appendix B (page 8 to 10.

(f) A presentation of 12 questions and answers to the proposed model is presented in appendix C (page 11 to 14).

Questions to EFRAG FRB and EFRAG FR TEG is presented in the cover note.

Explaining the alternative approach to own use

3 The alternative approach is initiated based on the discussion regarding physical Power Purchase Agreements (PPAs) but is not limited to physical PPAs as it is intended to be principle based and apply to all contracts to buy or sell a non-financial item that has "net settlement". The alternative approach does not amend how to assess "net settlement" in paragraph 2.6 of IFRS 9.

4 On net settlement, the alternative approach holds as an assumption[1] that net settlement in paragraph 2.6 of IFRS 9 is to be assessed for the entire contract (the entire contract is

[1] This assumption is based on a principle-based application of the net settlement and own use consideration but is not critical to the application of the alternative approach.

the unit and not only parts of a contract) and that it is to be considered during the entire life of a contract.

5 As opposed to the current IFRS 9, the alternative approach assesses the own use for any part of a contract and not only for the entire contract. So, parts of the contract will be able to apply own use while other parts of the same contract would be in scope of IFRS 9. A part of a contract does not need to be a proportional part of the contract but can only include features that is already present in the entire contract and only to the extent that they are present in the entire contract.

6 As opposed to the current IFRS 9, the alternative approach does not include an automatic overrule of own use if the condition in paragraph 2.6(b) or (c) of IFRS 9 is fulfilled. This is because own use is assessed for parts of contracts and behaviour related to other contracts or other parts of the contract is in that regard irrelevant.

7 The alternative approach assesses own use based on the current situation and expectations during the remainder of the duration of a contract. As opposed to the current IFRS 9, history does not matter. This will allow for a contract that in the past partly or fully has failed own use to subsequently fulfil own use, fully or to an increased extent.

8 As opposed to the current IFRS 9, the alternative approach has a free option to include any contract with net settlement in the scope of IFRS 9 on the first time the contract is assessed as net settled. This is not only possible at inception of the contract, and it is not dependent upon the being within the scope of IFRS 9 eliminating or significantly reducing an accounting mismatch.

9 As opposed to the current IFRS 7, the alternative approach introduces the disclosure requirements[2] of paragraph 33 of IFRS 7 to all contract assesses to have net settlement. [Contracts for own use is currently exempted from the disclosure requirements in IFRS 7.]

10 As in the current IFRS 9, PL effects occurs when contracts enter the scope of IFRS 9 and when they are within the scope of IFRS 9. No PL effect when contracts or parts of contracts are excluded from the scope of IFRS 9. Exclusion from the scope of IFRS 9 for parts of, or entire, contracts is a feature of the alternative approach.

11 As a simplifying feature, the alternative approach includes an option not to reassess for net settlement or own use, contracts within the scope of IFRS 9.

12 The result of the alternative approach is that a number of contracts that currently fail own use and are thus inside the scope of IFRS 9, will be outside the scope of IFRS 9 partly or in its entirety because they are expected to be for own use partly or entirely for the remaining of their outstanding period.

13 The alternative approach contains options that will allow entities to come to the same conclusions on IFRS 9 scope (own use) as under the current model.

14 A further explanation on the intended reason for the amendments, additions and deletions of each paragraph to get to the alternative model can be found in Appendix A.

How would the alternative approach apply to Power Purchase Agreements?

15 If the power purchase agreement is not net settled according to paragraph 2.6 of IFRS 9 => Own use assessment according to paragraph 2.4 of IFRS 9 is not applicable. The power purchase agreement does not apply IFRS 9. No new disclosure requirements for these contracts.

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[2] The argument for this disclosure requirement also applies to the own use model in the current IFRS 9 and is thus not a necessary part of the alternative approach. The proposed amendments to IFRS 7 can be implemented also without the implementation of the alternative approach.

16 If the power purchase agreement is net settled according to paragraph 2.6(a) or (d) and assessed to be a written option => Own use is still not a possibility according to paragraph 2.7 of IFRS 9.

17 If the power purchase agreement is net settled according to paragraph 2.6(a) or (d) of IFRS 9 => FVO according to paragraph 2.5A of IFRS 9 may apply (to the whole contract) or the entire contract or parts of the power purchase agreement may be "own use". Own use portion may increase or decrease in later periods, but the entity may elect as an accounting policy choice by class of underlying not to look for increases in "own use". Own use portion may represent a non-proportional part of the power purchase agreement.

18 Increases in own use (exclusion from the scope of IFRS 9) will not cause PL effect while reductions in own use (inclusion in the scope of IFRS 9) will cause potential PL effects.

19 Entities would have to disclose the exposure to risks from "own use" contracts including its objectives, policies and processes for managing the risk and the method used to measure the risk as per paragraph 33 of IFRS 7.

20 Entities preferring today's solution may get there through options in paragraph 2.4B and 2.5A.

21 Entities wishing so, may get more own use accounting than would be possible with the current own use regulation. A further explanation on the working of the alternative model can be found in Appendix B.

Proposed amendments to current IFRS 9 and IFRS 7

22 ***Amend[3] paragraph 2.4 of IFRS 9:*** This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts, or parts of contracts, that ~~were entered into and continue to be~~ are held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. However, this Standard shall be applied to those contracts that an entity designates as measured at fair value through profit or loss in accordance with paragraph 2.5A.

23 ***Add new paragraph 2.4A of IFRS 9:*** Parts of contracts or contracts, held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements, excluded from the scope of this Standard shall be defined so that they have a zero fair value at time of exclusion. Zero fair value cannot be constructed by imputing features in the part of the contract or contract excluded that is not proportionally present in the entire contract. When zero fair value is constructed by imputing cash settlement, cash settlement shall be imputed so that it creates a nominal fixed purchase or sell price on the non-financial item(s) that is the subject of the part of the contract or contract excluded from the scope of this Standard. The offset of the imputed cash settlement is to be designated to the remaining, or would have been remaining, contract in the same periods as imputed in the part of the contract excluded from the scope of this Standard.

24 ***Add new paragraph 2.4B of IFRS 9:*** Contracts and parts of contracts held for the purpose of receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sales or usage requirements as described in paragraph 2.4, are to be reassessed continuously. However, entities may as an accounting policy choice elect not to reassess

[3] In the proposed amended paragraphs proposed new text is underlined and proposed deleted text is stroked through. In proposed new paragraphs new text is for ease of reading not underlined. In proposed deleted paragraphs deleted text is not reproduced.

contracts or parts of contracts already within the scope of this Standard. The accounting policy choice is applicable by class of underlying non-financial item.

25 ***Delete paragraph 2.5 of IFRS 9[4].***

26 ***Add new paragraph 2.5A of IFRS 9:*** A contract to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contract were a financial instrument, may be irrevocably designated as measured at fair value through profit or loss even if a part of that contract was entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. This designation is available only at inception of the contract or if not at inception, the first time a contract can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contract were a financial instrument.

27 ***Amend paragraph 2.6 of IFRS 9:*** There are various ways in which a contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments. These include:

(a) when the terms of the contract permit either party to settle it net in cash or another financial instrument or by exchanging financial instruments;

(b) when the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the entity has a practice of settling similar contracts net in cash or another financial instrument or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);

(c) when, for similar contracts, the entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin; and

(d) when the non-financial item that is the subject of the contract is readily convertible to cash.

~~A contract to which (b) or (c) applies is not entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements and, accordingly, is within the scope of this Standard. Other contracts to which paragraph 2.4 applies are evaluated to determine whether they were entered into and continue to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements and, accordingly, whether they are within the scope of this Standard.~~

28 ***Amend paragraph 2.7 of IFRS 9:*** A written option<u>, or a part of a contract constituting a written option,</u> to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, in accordance with paragraph 2.6(a) or 2.6(d) is within the scope of this Standard. Such a contract<u>, or such part of a contract,</u> cannot be entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

[4] The functioning of paragraph 2.5 of IFRS 9 will be replaced by a new paragraph 2.5A of IFRS 9.

29 ***Amend paragraph 5 of IFRS 7[5]:*** This IFRS applies to contracts, or parts of contracts, to buy or sell a non-financial item that are within the scope of IFRS 9. Paragraph 33[6] of this Standard applies to contracts or parts of contracts that are not within the scope of IFRS 9 because the contracts or parts of the contracts are held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. The disclosures for such contracts shall be presented separately from the disclosures related to financial instruments for which the general disclosure requirements in this Standard applies.

[5] For a possible additional disclosure requirement please see and of answer 4 in appendix C.

[6] Paragraph 33 of IFRS 7 require an entity as follows: «For each type of risk arising from financial instruments, an entity shall disclose:

(a) the exposure to risk and how they arise;
(b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
(c) any changes in (a) or (b) from the previous period.»

Appendix A
The intended reason for the amendments, additions and deletions of each paragraph

Amendments to paragraph 2.4

1. The alternative model is intended to be forward looking in its assessment of own use. Thus, references to prior assessments are deleted.
2. The alternative model is assessing own use for parts of contracts. Thus, a contract can be held partly for own use and partly not for own use. The part hold for own use will, unless optioned into the scope of IFRS 9, be treated as an executory contract outside the scope of IFRS 9, while the part not held for own use will be treated as a separate contract within the scope of IFRS 9.

New paragraph 2.4A

3. As the assessment of own use in the amended model is forward looking only, and considered for parts of a contract, the assessment may be assumed to change over the life of a contract. It is thus necessary with regulations of how to account for changes in assumptions leading to part of a contract entering or exiting from the scope of IFRS 9.
4. The proposed solution is that entering into the scope of IFRS 9 is a recognition event that may, taking into consideration the regulation in paragraph B5.1.2A of IFRS 9, create gains or losses. This is assumed to be the solution currently applied in IFRS 9 then own use is failed subsequent to inception of a contract.
5. The proposed solution is that exiting the scope of IFRS 9 is a change of measurement that, except from the updating of the fair value measurement up to and including the time of exiting the scope, shall not create gain or losses.
6. It is only possible to exempt from a contract due to own use, parts that are actually present in the entire contract.
7. For a part of a contract that has been, but is no longer, within the scope of IFRS 9 accumulated gains or losses are assumed to be settled as to create a fixed price for the deliveries that are scoped out of IFRS 9.

New paragraph 2.4B

8. The requirement to continuously (or in practice at each period end) assess if parts of contracts are expected to be for own use may be demanding on entities. Thus, the amended model provides for an accounting policy choice not to reassess parts of contracts previously assessed not to be for own use. To allow some flexibility, the accounting policy choice is applicable by class of underlying non-financial item.

Delete paragraph 2.5 of IFRS 9

9. Paragraph 2.5 of IFRS 9 contains a limited option to include contracts with net settlement entered into and continuing to be held for own use in the scope of IFRS 9. As the alternative own use model includes an unlimited option to include contracts with net settlement into the scope of IFRS 9, this paragraph becomes obsolete and is deleted in the alternative own use model.

New paragraph 2.5A of IFRS 9

10. For operational simplification, and to allow for similar outcomes as in the current own use model, the alternative own use model includes an option to ignore own use for a part[7] of

[7] A part of a contract may include the entire contract.

a contract and scope the entire contract into IFRS 9. As the alternative own use model assumes continuous assessment of net settlement (and subsequently own use) the option is applicable the first time the contract is assessed to be net settled.

<u>Amend paragraph 2.6 of IFRS 9</u>

11. As the alternative own use model require concrete assessments of own use for parts of contracts it should be irrelevant what kind of practice an entity has for the remaining of the contracts. Thus, the alternative own use model does not need the tainting of whole contracts as currently regulated in the last part of paragraph 2.6 of IFRS 9.

<u>Amend paragraph 2.7 of IFRS 9</u>

12. As the alternative own use model require concrete assessments of own use for parts of contracts, the impacts of net written options on own use assessment should apply not only to contracts that are net written options but also to parts of contracts that are net written options.

<u>Amend paragraph 5 of IFRS 7</u>[8]

13. Contracts with net settlement are considered different from contracts without net settlement in as much as, unless they are for own use, they are inside the scope of IFRS 9. Own use is an entity specific characteristic of a contract or a part of a contract, it does not change the risk characteristic of the contract. As such the user need for information is not dependent upon the fact that parts of a contract are for own use. Qualitative disclosure requirements in IFRS 7 are relevant for contracts or parts of contracts for own use.

[8] For a possible additional disclosure requirement please see and of answer 4 in appendix C.

Appendix B
Understanding the proposed new own use model

A question and answer-based simulation of how to apply the proposed amendments.

At inception of the contract:

Q1: Is the entire contract[9] net settled according to IFRS 9.2.6?

No: The contract is outside the scope of IFRS 9 unless inside due to other reasons. *)[10]

Yes: Go to Q2.

Q2: Is a part[11] of the contract held for own use [considering also the guidance in IFRS 9.2.7[12]]?

No: Go to Q3

Yes: The other remaining part of the contract, that is not the part of the contract held for own use, is within the scope of IFRS 9. Go to Q4.

Q3: Do the entity elect to designate[13] the entire contract to be within the scope of IFRS 9?

No: The contract is inside the scope of IFRS 9. *)

Yes: The contract is and will remain within the scope of IFRS 9. **)

Q4: Do the entity elect to designate[14] the entire contract to be within the scope of IFRS 9?

No: This part of the contract is outside the scope of IFRS 9. *)

Yes: The contract is and will remain within the scope of IFRS 9. **)

Subsequent to the inception of the contract:

Q5 (equal to Q1): Is the entire contract net settled according to IFRS 9.2.6?[15]

No: Go to Q6.

[9] A possible further development might be to consider net settlement also for parts of contracts. This line of thinking is not a part of the alternative own use model.

[10] For meaning of *) and **) see end of document.

[11] The new model assesses own use for parts of contracts. A part of a contract includes the whole contract and also non-proportional parts of the contract.

[12] Contracts that are written options and net settled according to paragraph 2.6(a) and or (d) of IFRS 9 cannot be held for own use.

[13] The new model has an option to unconditionally elect a contract with net settlement to be within the scope of IFRS 9. This option would remove the current conditional option in IFRS 9.2.5.

[14] The new model has an option to unconditionally elect a contract with net settlement to be within the scope of IFRS 9. This option would remove the current conditional option in IFRS 9.2.5.

[15] The new model makes it clear that the net settlement assessment is a continuous assessment.

Yes: Go to Q7.

Q6: Has the contract previously been net settled according to IFRS 9.2.6?
No: The contract is still outside the scope of IFRS 9 unless inside due to other reasons. *)

Yes[16]: Exclude the remaining deliveries under the contract from the scope of IFRS 9. The remaining deliveries under the contract shall be defined so that it has a fair value of zero at the time of exclusion. Zero fair value cannot be constructed by imputing features in the remaining deliveries under the contract excluded that is not proportionally present in the entire contract. When zero fair value is constructed by imputing cash settlement, cash settlement shall be imputed so that it creates a nominal fixed purchase or sell price on the non-financial item(s) that is the subject under the contract excluded from the scope of this Standard. The offset of the imputed cash settlement is to be designated to the remaining empty contract in the same periods as imputed in the contract excluded from the scope of this Standard. *)

Q7: Is this the first time the contract becomes net settled according to IFRS 9.2.6?

No: Go to Q11.

Yes: Go to Q8.

Q8 (equal to Q2): Is a part of the contract held for own use [considering also the guidance in IFRS 9.2.7]?

No: Go to Q9.

Yes: Go to Q10.
Q9 (equal to Q3): Do the entity elect to designate[17] the entire contract to be within the scope of IFRS 9?

No: This contract is inside the scope of IFRS 9. *)

Yes: The contract is and will remain within the scope of IFRS 9. **)

Q10 (equal to Q4): Do the entity elect to designate the entire contract to be within the scope of IFRS 9?

No: This part of the contract is outside the scope of IFRS 9. The other remaining part of the contract, that is not the part of the contract held for own use, is within the scope of IFRS 9. *)

Yes: The contract is and will remain within the scope of IFRS 9. **)

Q11: For the remaining unfulfilled part of the contract, has the part of the contract held for own use increased?

No: Go to Q13.

Yes: Go to Q12.

[16] For ease of understanding of logic please see also answer "No" to Q12.

[17] The new model has an option to unconditionally elect a contract with net settlement to be within the scope of IFRS 9. This option would remove the current conditional option in IFRS 9.2.5.

Q12: Has the entity made an accounting policy option not to reassess parts of contracts within the scope of IFRS 9?[18]

No: Exclude from the scope of IFRS 9 a part of the contract covering the increased own use. The part excluded from the scope of IFRS 9 shall be defined so that it has a fair value of zero at the time of exclusion. Zero fair value cannot be constructed by imputing features in the part of the contract excluded that is not proportionally present in the entire contract. When zero fair value is constructed by imputing cash settlement, cash settlement shall be imputed so that it creates a nominal fixed purchase or sell price on the non-financial item(s) that is the subject of the part of the contract excluded from the scope of this Standard. The offset of the imputed cash settlement is to be designated to the remaining contract in the same periods as imputed in the part of the contract excluded from the scope of this Standard. *)

Yes: Continue previous accounting. *)

Q13: For the remaining unfulfilled part of the contract, has the part of the contract held for own use decreased?

No: Continue previous accounting. *)

Yes: The decreased part of the contract that is no longer held for own use is inside the scope of IFRS 9. Recognise the decreased part of the contract that is no longer held for own use in the statement of financial position at fair value with an offsetting entry to profit or loss[19]. *)

*) Go subsequently to Q5.

**) End. No subsequent questions to be answered. This contract remains in scope of IFRS 9 until derecognised according to other requirements.

[18] The new model includes an accounting policy option not to reassess the scope of IFRS 9 for parts of contracts already inside the scope of IFRS 9.

[19] Taking into consideration the principles in paragraph B5.1.2A of IFRS 9.

Appendix C
Questions and answers to the proposed model

Question 1: Do the proposed model provide guidance on how to determine if and to the extent a contract is expected to be for own use?

Answer 1: No, in its current form the proposed model provides no new guidance on how to determine if and to the extent a contract is expected to be for own use.

For contracts that has net settlement (and only for those contracts) the entity must, unless one of the two options to measure the contract or parts of the contract to fair value through profit or loss is applied, assess and then subsequently reassess if parts (that can include non-proportional parts) of contracts, are held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. This deviates from what the entity must do today when it only has to (a) at inception assess if the entire contract is for own use, and then (b) continue to conduct this assessment until the entity concludes that the contract is not in its entirety held for own use.

The proposed model does not include the tainting rules for the own use assessment that is currently in paragraph 2.6 of IFRS 9.

Question 2: How much more complex would the proposed own use assessment be for the entity?

Answer 2: It depends.

If the entity wants the assessment to be easy, the entity may eliminate the own use assessment all together by applying the unconditional fair value option for all contracts that has net settlement. This is an easier solution than today as today the fair value option is conditional.

If the entity assesses that the entire contract is for own use, then the assessment has the same complexity as today.

If the entity assesses that no part of the contract is for own use, then the assessment has the same complexity as today.

If the entity assesses that only parts of the contract is for own use, then the assessment of the extent of own use will be more complex than today. The complexity will further depend upon the type of underlying(s) in the contract. If the underlying is storable / largely interchangeable, then assessment of own use reduces to assessment of own use for a proportion of a contract. If the underlying is not storable / not interchangeable then the own use assessment must be expected to be applied to a non-proportional part of the contract.

However, it is generally expected that an entity when entering into a contract has an expectation on how the underlying in the contract fits into the business model of the entity and thus whether and to what extent the contract is for own use. Generally, these expectations will not change significantly unless business circumstances change.

Question 3: How much more complex would fair value measurements, required by the proposed model, be for the entity?

Answer 3: It depends on primary three factors, those being: (a) the patterns of the expected own use, (b) the properties of the non-financial items subject to the contract and (c) the quality of their current risk management systems.

If the pattern of own use is proportional to that of the contract, then no significant additional complexity should arise in regard to valuation.

If the property of the underlying is such that the underlying is storable at a reasonable cost, then the units of the underlying in the contracts is expected to have similar value for reasonably similar receipt- or delivery-periods and the added complexity of a complex own use pattern should not be too significant.

For entities with good risk management systems there should be no or limited additional costs.

Question 4: Is the proposed own use model exposed to earning management activities?

Answer 4: In theory, the proposed own use model, may allow for more earning management than the current own use model. However, one must be aware that also the current own use model allows for potential significant earning management.

As is the case today, effects on profit or loss on the future part of a contract with net settlement, only occur when a contract is or becomes inside the scope of IFRS 9, that is when a part of the contract is assessed not to be for own use. To conduct earning management biased assessments must be made of decrease in the part of the contract that is assessed to be held for own use. The fair value of this part of the contract will then, subject to the existing regulation of day 1 gain or loss recognition, be recognised in profit or loss with a catch-up effect of the accumulated fair value change for that part. No earning management is possible going the other way as the part of the contract excluded from the scope of IFRS 9 is excluded with a zero fair value. Please note that as opposed to today it is not the fair value of the entire contract that is recognised if profit or loss, only the decreased part assessed as being for own use. So today the possible earning management is potentially more significant as it is easier for management to assess that not all of the contract is for own use rather than assessing than all of the contract is not for own use.

A possible protective disclosure would be to require an entity to disclose the sum of gains or losses recognised on initial measurement of contracts with net settlement (a) for the period and (b) accumulated for currently recognised contracts[20].

Question 5: What are the assessed benefits for the entities?

Answer 5: The assessed benefit for the entities includes:

(a) Increased application of own use as the tainting rule in paragraph 2.6 of IFRS 9 is removed.
(b) Increased application of own use as own use can be assessed for parts of contracts.
(c) Less volatility when a contract is no longer in its entirety assessed to be for own use.
(d) Easier signalling to the market of which exposures is entered into for position taking (or entered into causing position taking) and which exposures is entered into for core business purposes.
(e) Easier access to the fair value option.
(f) On recognition and measurement, status quo as related to the current situation may be achieved, at inception of a contract, through the use of the extended fair value option. IF so elected than subsequent volatility will by definition be equal or less than the volatility in the current model.
(g) Possibly improved valuation systems for contracts with net settlement.

[20] This disclosure requirement is not incorporated in the proposed amendment in the section «Proposed amendments to IFRS 9 and IFRS 7» presented above.

Question 6: What are the assessed increased costs for the entities?

Answer 6: The assessed increased cost for the entities includes:

(a) Costs to provide extra disclosure requirements related to contracts with net settlement assessed to be held (partly) for own use.
(b) Costs to follow up the own use assessment for contracts assessed partly or entirely to not be held for own use.
(c) Costs to set up valuation models for portions of contracts with net settlement where the underlying is not storable / largely interchangeable. For entities with good risk management this should not be additional costs.

Question 7: What are the assessed benefits for the users?

Answer 7: The assessed benefit for the entities includes:

(a) Increased transparency of which exposures is entered into for position taking (or entered into causing position taking) and which exposures is entered into for core business purposes.
(b) Increased transparency on the risk exposures from contracts with net settlement assessed to be for own use.
(c) Informational volatility when entity changes assessment of own use.

Question 8: What are the assessed lost benefits for the users?

Answer 8: The assessed lost benefit for the entities includes:

(a) Less fair value measurement of entire contracts with net settlement in the statement of profit or loss.
(b) Less disclosures for contracts with net settlement not held entirely for own use.

Question 9: Does the proposed model amend the guidance on how to assess net settlement?

Answer 9: No, the proposed model relates to own use and does not provide guidance on how to assess net settlement.

Question 10: Does the proposed model provide guidance on the issue of virtual power purchase agreements?

Answer 10: No, virtual power purchase agreements are financial instruments. As such the guidance related to (net settlement and) own use does not apply.

Question 11: The proposed amendments to IFRS 9 and IFRS 7 does not include any transition rules. Why is that?

Answer 11: It is correct that the proposed amendments to IFRS 9 and IFRS 7 do not include transition requirements. The reason for that is that transition requirements is better provided after a proposal has been out for exposure to see if there is any unexpected feedback arising from the exposure that should be taken into consideration in the transition requirements.

Question 12: The alternative approach is initiated based on the discussion regarding physical PPAs. What are the “unintended” consequences for other contracts?

Answer 12: Unintended consequences are generally hard to predict. The expectation is that they will be few. One consequence that might be creating a need for transition requirements may be related to contracts that is partly for own use but that has failed the own use assessment in IFRS 9 and that is now recognised as hedging instruments in a hedging relationship. The assessed increased costs identified in the answer to question 6 applies to all types of physical contracts with net settlement and not only to contracts that are physical PPAs.