EFRAG Secretariat: Didrik Thrane-Nielsen,
Aleksandra Sivash, Juan José Gómez

[Draft] Comment Letter

You can submit your comments on EFRAG's draft comment letter by using the 'Express your views' page on EFRAG's website, then open the relevant news item and click on the 'Comment publication' link at the end of the news item.

Comments should be submitted by 15 July 2024.

International Accounting Standards Board

7 Westferry Circus, Canary Wharf

London E14 4HD

United Kingdom

[XX Month 2024]

Dear Mr Barckow,

Re: Exposure Draft *Contracts for Renewable Electricity Proposed amendments to IFRS 9 and IFRS 7*

On behalf of EFRAG, I am writing to comment on the exposure draft *Contracts for Renewable Electricity Proposed amendments to IFRS 9 and IFRS 7,* issued by the IASB on 8 May 2024 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area.

In the context of the European Green Deal and related policies, regulations and legislations, there is an increasing number of entities entering into Power Purchase Agreements. EFRAG understands the urgency and prevalence of the matter that the IASB is willing to address through the proposed amendments to IFRS 9 and IFRS 7 and supports the IASB in this task.

Overall, EFRAG is supportive of the IASB's proposals geared towards a narrow-scope application addressing both own-use exception requirements as well as hedge accounting requirements.

Scope

EFRAG generally supports the narrow scope of the proposed amendments.

However, EFRAG notes that the proposed scope is currently limited to the contracts containing 'pay-as-produced' feature, however, there is a wide variety of contracts containing 'pay-as-forecasted', 'pay-as-nominated' features. Further, contracts may include volume cap, volume floor and / or volume collar features. EFRAG believes that the contracts with the features listed above should be considered in the proposed amendments.

Own-use assessment

EFRAG agrees with the direction of the proposals in regard to what an entity should consider when assessing if the contracted electricity is consistent with the entity's expected purchase or usage requirements.

However, EFRAG is of the view that the example of one month included in paragraph 6.10.3(b)(iii) may be too short. EFRAG suggests that the IASB elevate to the main body of the proposals the wording included in BC20(c) which indicates that 'Reasonable' depends on an entity's operations. The IASB could also provide an example of what might not be a reasonable time, for instance beyond 12 months.

EFRAG suggests removing from paragraph 6.10.3(a) of the ED what an entity is not required to do (i.e. to make a detailed estimate for periods that are far in the future). By including this text, it might be interpreted that entities should make detailed estimates for periods longer than 12 months for other own-use assessments done under paragraph 2.4 of IFRS 9.

Further, considering the structure of the electricity market in some countries, EFRAG encourages the IASB to reconsider the use of the wording "within a short period after delivery" in paragraph 6.10.3(b) of the ED.

Hedge accounting requirements

EFRAG welcomes the IASB's thorough approach distinguishing the considerations for sellers and purchasers.

Disclosure requirements

EFRAG suggests that the proposed disclosure requirements should apply only to contracts within the scope of the ED that qualify for the own-use exception.

EFRAG's detailed comments and responses to the questions in the ED are set out in Appendix A.

If you would like to discuss our comments further, please do not hesitate to contact Didrik Thrane-Nielsen or Aleksandra Sivash.

Yours sincerely,

Wolf Klinz

EFRAG FRB Chairman

Appendix A – EFRAG's responses to the questions raised in the ED

Question 1 – Scope of the proposed amendments

Notes to constituents – Summary of proposals in the ED

1 *Paragraph 6.10.1 of the ED indicates that an entity shall apply the requirements in the ED proposals "to a contract for renewable electricity with both of the following characteristics:*

(a) *the source of production of the renewable electricity is nature-dependent so that supply cannot be guaranteed at specified times or for specified volumes. Examples of such sources of production include wind, sun and water; and*

(b) *that contract exposes the purchaser to substantially all the volume risk under the contract through 'pay-as-produced' features. Volume risk is the risk that the volume of electricity produced does not align with the purchaser's demand for electricity at the time of production."*

2 *Paragraph BC6 of the ED explains that contracts to buy or sell non-financial items, other than for PPAs, have not raised concerns among stakeholders. Hence, it highlights the importance of minimising the risk of unintended consequences any proposed amendments could have on other contracts to buy or sell non-financial items.*

3 *Paragraph BC9 of the ED further explains that The IASB also considered whether to include in the proposed amendments other contracts for electricity. In developing the proposals, the IASB did not receive feedback that other contracts result in the same concerns as contracts that have the characteristics described in proposed paragraph 6.10.1. For example, the IASB did not include contracts for biomass energy and some contracts for hydroelectricity in the scope of the proposed requirements because those contracts might only have one of the characteristics described in proposed paragraph 6.10.1.*

4 *Contracts for renewable electricity are typically accompanied by renewable energy certificates (RECs) which certify that the bearer owns electricity produced from a renewable production facility. Without RECs or similar documentation, a company generally cannot substantiate that it uses renewable electricity. The IASB concluded that a response to accounting questions about RECs might be best placed in a potential project on pollutant pricing mechanisms. If the IASB included RECs within this project, it would delay it because the IASB would have to consider a broader range of arrangements. Therefore, this ED does not propose how to account for RECs.*

5 *Paragraph 6.10.2 of the ED indicates that an entity shall not apply the proposed amendments by analogy to other contracts, items or transactions.*

Question 1 – Scope of the proposed amendments

Paragraphs 6.10.1–6.10.2 of the proposed amendments to IFRS 9 would limit the application of the proposed amendments to only contracts for renewable electricity with specified characteristics.

Do you agree that the proposed scope would appropriately address stakeholders' concerns (as described in paragraph BC2 of the Basis for Conclusions on this Exposure Draft) while limiting unintended consequences for the accounting for other contracts? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

EFRAG's response

6 EFRAG appreciates IASB's swift response addressing issues posed by contracts for renewable electricity and generally agrees with the direction of the scope of the proposed amendments. However, some comments and suggestions are provided below.

7 The Exposure Draft (ED) outlines in paragraph 6.10.1(a) that "the source of production of the renewable electricity is nature-dependent so that the supply cannot be guaranteed at specified times or for specified volumes." EFRAG recommends that the IASB clarifies the meaning of 'nature-dependent' in light of BC9 of the ED, for example, that the generation of electricity only depends on nature once the equipment is operating unlike some water production (i.e. dams) where human intervention influences production and unlike production using natural fuels (i.e. biomass).

8 EFRAG's understanding is that the IASB did not intend the, so called, baseload contracts to be in scope of the proposed amendments, because both volume and the timing are specified and fixed (therefore baseload contracts would fail the requirements of 6.10.1(a)). EFRAG would like to confirm that this is indeed the intention of the IASB.

9 The ED requires in paragraph 6.10.1(b) that the contract must expose "the purchaser to substantially all the volume risk under the contract through 'pay-as-produced' features". Volume risk in paragraph 6.10.1(b) is defined as "the risk that the volume of electricity produced does not align with the purchaser's demand for electricity at the time of production".

10 EFRAG notes that 'substantially all' is a judgmental criterion and suggests further clarifying the factors to be considered when assessing the contract for this criterion. For example, it may be helpful to clarify that 'substantially all the volume risk' does not imply that the purchaser must acquire substantially all output of a referenced production facility.

11 At the same time, EFRAG is concerned that the current drafting limits the scope to only the contracts with 'pay-as-produced' feature, noting that many contracts within EU have 'pay-as-forecasted' / 'pay-as-nominated' features and / or contain volume cap, volume floor and / or volume collar features. It is not clear how the requirements proposed in paragraph 6.10.1 are to be assessed in regard to these types of contracts. EFRAG believes that these contracts should also be considered in the proposed amendments, as they expose the purchaser to similar application issues.

12 Furthermore, EFRAG foresees some challenges using the volume risk criterion as currently defined in the ED: "the risk that the volume of electricity produced does not align with the purchaser's demand for electricity at the time of production". Indeed, the assessment of this criterion seem to be done from the purchaser's perspective instead of focusing only on the terms and conditions of a contract as such. EFRAG was informed that purchasers may have ancillary contracts, for example, aggregator contracts, which further complicates the assessment of the volume risk.

Questions to Constituents

13 Question 1.1: Are you aware of power purchase agreements (PPAs) where there is uncertainty of whether the agreement meets or fails the requirements in the proposed text in paragraph 6.10.1? If so, could you provide a description of these PPAs and let us know if these are prevalent?

14 Question 1.2: Do you consider that it is appropriate to use the term "renewable electricity" in the proposed amendments taking into account that:

- the term "renewable" is not defined within the ED;
- the RECs (or similar certificates) are not considered within the proposed amendments.

Why or why not? Do you foresee any challenges if the term "renewable" is omitted and the proposals refer only to "electricity"?

Question 2 – Proposed 'own-use' requirements

Notes to constituents – Summary of proposals in the ED

15 *Paragraph 6.10.3 specifies that to apply the requirements in paragraph 2.4 of IFRS 9 to contracts of renewable electricity that are in the scope of the amendments, an entity shall consider at inception of the contract and at each subsequent reporting date:*

(a) *the purpose, design and structure of the contract including the volumes of electricity expected to be delivered over the remainder of the contract. The ED specifies that to assess the consistency between the volumes expected to be delivered and the entity's needs of electricity, an entity shall consider reasonable and supportable information available at the reporting date for at least 12 months but an entity may extrapolate projections for longer periods.*

(b) *the reasons for past and expected sales of unused renewable electricity within a short period after delivery and whether such sales are in accordance with the entity's expected purchase or usage requirements. The ED clarifies that a sale is in accordance with the entity's needs if all the following criteria are met:*

(i) *the sale is caused by mismatches between the electricity delivered and the entity's demand at the time of delivery;*

(ii) *the design and operation of the market prevents the entity from determining the timing or price of the sale; and*

(iii) *the entity expects to purchase at least an equivalent volume of electricity within a reasonable time (for example, one month) after the sale. BC20(c) indicates that 'reasonable' depends on an entity's operations. The IASB added an example of one month to demonstrate that a reasonable time is typically a short time.*

Question 2 – Proposed 'own-use' requirements

Paragraph 6.10.3 of the proposed amendments to IFRS 9 includes the factors an entity would be required to consider when applying paragraph 2.4 of IFRS 9 to contracts to buy and take delivery of renewable electricity that have specified characteristics.

Do you agree with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

EFRAG's response

16 EFRAG generally agrees with the direction of the proposals, but there are a few aspects that in our view should be considered by the IASB.

17 The ED specifies in paragraph 6.10.3 (b)(iii) that one of the criteria for a sale to be consistent with an entity's usage requirements is that the entity expects to purchase at least an equivalent volume of electricity within a reasonable time. It also provides one month as an example of what might be a reasonable time. EFRAG is of the view that one month may be too short for some industries, for instance, those affected by seasonality. To give more prominence to the specific circumstances of entities, EFRAG suggests that the IASB elevate to the main body of the proposals the wording included in BC20(c) which indicates that 'Reasonable' depends on an entity's operations. The IASB could also provide an example of what might not be a reasonable time, for instance beyond 12 months.

18 The ED requires in paragraph 6.10.3(a) that an entity consider the purpose, design and structure of the contract including the volumes of electricity expected to be delivered over the remainder of the contract. Obtaining renewable energy certificates to contribute to an entity's carbon emission reduction objectives is also commonly one purpose for entering into these contracts, which is not relevant to assess whether the contracted electricity is for own-use purposes. Therefore, EFRAG recommends that the aforementioned proposal is limited to considering whether the volumes of electricity expected to be delivered over the remainder of the contract are for own-use purposes.

19 The ED also requires in paragraph 6.10.3(a) that an entity should consider reasonable and supportable information available at the reporting date for a period no shorter than 12 months (or an entity's normal operating cycle) when considering the consistency between the volumes expected to be delivered and the entity's needs of electricity. Beyond 12 months an entity is not required to make a detailed estimate but is permitted to make

extrapolations based on short-term estimates. EFRAG is of the view that this intended relief could cause unintended consequences.

20 When assessing whether a contract to buy or sell a non-financial item is for own-use purposes in accordance with paragraph 2.4 of IFRS 9, an entity makes its decision based on reasonable and supportable information at the date of assessment. In some instances, reasonable and supportable information only comes from an entity's budget which in many situations cover 12 months. Therefore, the presumed relief highlighted in the previous paragraph could raise the bar for other own-use assessments that entities perform as it could imply that entities should make detailed estimates for periods longer than 12 months. Consequently, EFRAG recommends removing from the proposals what an entity is not required to do (i.e. to make a detailed estimate for periods that are far in the future).

21 The ED requests in paragraph 6.10.3(b) the reasons for sales of unused renewable electricity "within a short period after delivery" and clarifies when a sale of unused renewable electricity is in accordance with the entity's expected purchase or usage requirements. EFRAG has been informed that some markets require the participants in the electricity market to balance the supply and demand for electricity before the period of delivery/consumption. In addition, when an entity has multiple electricity contracts (renewables and non-renewables) for simultaneously delivery in a defined grid location then to define from which of these contracts sales occurred in the delivery period (or shortly after) will be arbitrary. Therefore, we encourage the IASB to reconsider the use of the wording "within a short period after delivery".

22 EFRAG also consider that it might be useful to clarify how an entity might perform the assessment required in paragraph 6.10.3(b) of the ED from a practical perspective. In this regard, the IASB could leverage on the example provided in AP3A of the IASB meeting held in March 2024 to provide an illustrative example. This could provide some practical insights to stakeholders on how the assessment is performed. It would also demonstrate that an entity can sell relevant quantities of electricity (60% according to the example in AP3A) without failing the own-use exemption.

23 Furthermore, regarding the criterion included in paragraph 6.10.3(b)(ii) (i.e. the design and operation of the market prevents the entity from determining the timing or price of the sale), EFRAG considers that timing is the primary drivers to assess this criterion. If due to the functioning of the market an entity cannot determine the timing of the sale, then it

does not matter whether it can influence the sale price. Hence, we encourage the IASB to consider whether it is necessary to make reference to price.

24 In addition, in relation to paragraph 6.10.3(b)(iii), since entities may have several PPAs, and we do not expect that purchases under one of these other PPAs constitute a purchase as described in the aforementioned paragraph, the IASB could clarify that these are purchases from the spot- or forward market (i.e. an entity may cover the expected sales of unused electricity with forward purchases). The IASB should also specify that the spot and forward purchases are for own-use purposes and that the delivery of the forward purchases should be within the relevant period.

25 Lastly, EFRAG considers that it would be helpful if the IASB clarify if the own-use assessment should be made at a contract level or at a different level.

Questions to Constituents

26 Do you agree with the requirements related to the own-use exception for the specific contracts in scope of the ED? Do you foresee any adverse economic consequences in short, medium or long term?

Question 3 – Proposed hedge accounting requirements

Notes to constituents – Summary of proposals in the ED

27 Paragraph 6.10.4 of the ED specifies that for the purpose of applying the requirements in Section 6.3 to a cash flow hedging relationship for the contracts in scope of the proposed amendments, an entity is permitted to designate a variable nominal volume of forecast electricity transactions (either sales or purchases) as the hedged item, if and only if:

(a) *The hedged item is specified as the variable volume of electricity to which the hedging instrument relates; and*

(b) *the variable volume of forecast electricity transactions designated in accordance with (a) do not exceed the volume of future electricity transactions that are highly probable, except if paragraph 6.10.5 of the ED applies.*

28 Paragraph 6.10.5 of the ED specifies that forecasted sales are not required to be highly probable if the hedging instrument relates to a proportion of the total future renewable electricity sales from the production facility as referenced in the contract for renewable electricity.

29 *Regarding accounting of the qualified cash flow hedging relationship, paragraph 6.10.6 of the ED specifies that an entity shall measure the hedged item using the same volume assumptions as those used for measuring the hedging instrument. However, all other assumptions and inputs used for measuring the hedged item, including pricing assumptions, shall reflect the nature and characteristics of the hedged item and shall not impute the features of the hedging instrument.*

Question 3 – Proposed hedge accounting requirements

Paragraphs 6.10.4–6.10.6 of the proposed amendments to IFRS 9 would permit an entity to designate a variable nominal volume of forecast electricity transactions as the hedged item if specified criteria are met and permit the hedged item to be measured using the same volume assumptions as those used for measuring the hedging instrument.

Do you agree with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

EFRAG's response

30 EFRAG agrees that the proposed amendments shall address both the own-use requirements and the hedge accounting requirements related to the contracts within the scope of the ED at the same time and welcomes the IASB's consideration of the matter.

31 For the avoidance of doubt, the comments provided in our reply to your Question 1 on the scope of the proposed amendments apply equally to the proposed own-use requirements and to the proposed hedge accounting requirements.

32 EFRAG welcomes the IASB's thorough approach distinguishing the considerations for sellers and purchasers in contracts in scope of the proposed amendments. EFRAG notes that paragraph 6.10.5 of the ED states: "forecasted sales are not required to be highly probable if the hedging instrument relates to a proportion of the total future renewable electricity sales from the production facility as referenced in the contract for renewable electricity". Although BC35 presents this proposal as an exception, EFRAG expects that those forecasted sales are highly probable by design and suggests further clarifying this matter.

33 It would be, however, helpful to specify why the logic outlined in paragraph 6.10.5 of the ED is limited to the contracts in scope of the proposed amendments and should not be applied to all load-following swaps from a seller perspective.

34 In relation to the requirements outlined in paragraph 6.10.4(b) of the ED and specifically the requirement for future electricity transactions to be highly probable for a purchaser, EFRAG suggests providing further guidance for the assessment by a purchaser of the "highly probable" criterion. In and of itself, the mere duration (commonly over 15 years) of the contracts in scope raises questions as to whether such assessment can be documented satisfactorily.

Questions to Constituents

35 Question 3.1: As a producer of electricity that may be sold in a contract within the scope of paragraph 6.10.1, have you identified issues preventing you from using hedge accounting for contracts within the scope of paragraph 6.10.1? If so, please explain.

36 Question 3.2: As a purchaser of electricity in a contract within the scope of paragraph 6.10.1. do you expect that the regulation in paragraphs 6.10.4 and 6.10.6 will allow you to do more hedge accounting in the future? If no, please explain.

37 Queston 3.3: If you are aware of any other features of the relevant contracts which are prevalent and are not currently addressed by the ED, please provide the description of those features and where the application uncertainty is.

Question 4 – Proposed disclosure requirements

Notes to constituents – Summary of proposals in the ED

38 The ED proposes an entity that is a party to contracts for renewable electricity (those that meet the requirements in paragraph 6.10.1 of the ED) should satisfy a specific disclosure objective that enable users to understand how these contracts affect the amount, timing and uncertainty of the entity's future cash flows. Paragraph 42T requires the following items of information to meet this objective:

(a) *the terms and conditions of the contracts. Some examples are provided.*

(b) *for contracts that are not measured at fair value, either the fair value of the contracts at the reporting date together with the information required by paragraphs 93(g)–(h) of IFRS 13 or the volume of electricity expected to be sold or purchased over the remainder of the contract. An entity is permitted to use some specified time bands -*

not later than one year; later than one year and not later than five years; and later than five years. An entity shall disclose the methods and assumptions used in preparing the information together with any changes and the reasons for such changes.

39 *The ED also requires that purchasers and sellers satisfy a specific disclosure objective that enables users to understand how these contracts affect the entity's financial performance for the reporting period. They should disclose the proportion of renewable electricity covered by the contracts to the total sales/purchases of electricity. In addition, a purchaser should disclose:*

(a) *the total net volume of electricity purchased;*

(b) *the average market price per unit of electricity; and*

(c) if (a) multiplied by (b) differs substantially from the actual total cost of electricity, a qualitative explanation of the key reasons for this difference.

40 Paragraph 42W of the ED reminds that an entity should consider the appropriate level of aggregation/disaggregation.

Question 4 – Proposed disclosure requirements

Paragraphs 42T–42W of the proposed amendments to IFRS 7 would require an entity to disclose information that would enable users of financial statements to understand the effects of contracts for renewable electricity that have specified characteristics on:

(a) the entity's financial performance; and

(b) the amount, timing and uncertainty of the entity's future cash flows.

Do you agree with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

EFRAG's response

41 EFRAG understands that the proposed amendments to the disclosure requirements would apply to any entity "that is a party to contracts for renewable electricity (that have the characteristics in paragraph 6.10.1 of the ED)", regardless of whether the contracts would otherwise be within the scope of IFRS 9. This requirement would bring an additional burden

to the entities that are party to contracts for electricity but that account for those contracts at fair value through profit or loss (i.e. contracts that are not for own-use purposes). In addition, EFRAG is of the view that users already obtain useful information for contracts that are accounted for at fair value both from the primary financial statements and from the disclosures required in the accompanying notes. Therefore, EFRAG suggests that the disclosure requirements proposed in the ED should apply only to contracts within the scope of paragraph 6.10.1 of IFRS 9 that qualify for own-use exception.

42 EFRAG suggests that the disclosure requirement in paragraph 42T of the ED to be mandatory as it relates to the disclosure of volume by range of periods. However, EFRAG suggests allowing management to define relevant time ranges instead of imposing those. Therefore, the disclosure should require an explanation of the volumes to be purchased or sold using the range of periods considered appropriate by the entity.

43 EFRAG also questions whether the items of information requested in the last sentence of paragraph 42U and in paragraph 42V(a) of the ED (i.e. the proportion of renewable electricity covered by the contracts to the total sales/purchases of electricity) is fit for the purpose of financial statements. This information may be better placed in sustainability reporting standards. In addition, since the scope of the amendments does not capture all contracts for renewable electricity, the requested information may be misleading as it is incomplete.

44 Regarding the requirement in the first sentence of paragraph 42U, EFRAG notes that contracts meeting the own-use exception generally will be subjects to the disclosure requirements in IFRS 15. Contracts within the scope of paragraph 6.10.1 failing the own-use exception will in principle be equal to all other contracts for physical delivery of a non-financial item within the scope of IFRS 7, thus the disclosure requirement should in principle apply to all such contracts. Instead of having different disclosure requirements for similar contracts within the scope of IFRS 7 (purchases or sale of non-financial items, having net settlement and failing own-use), EFRAG favours that these contracts have the same disclosure requirements. Hence, EFRAG proposes to omit paragraph 42U.

45 For the purpose of allowing users of financial statements to understand how the contracts in scope of the ED affect the purchaser's performance for the reporting period, it would be useful to provide information related to the financial impacts of the sales of unused volumes on the market (in case of physical PPA to which the own-use exception has been

applied). EFRAG is of the view that information required under paragraph 42V of the ED is not an appropriate proxy of this suggested disclosure.

46 As a technical detail, EFRAG notes that paragraphs 42T – 42W will require a scope-in paragraph in IFRS 7 for contracts within the scope of IFRS 9 paragraph 6.10.1 deemed to be for own-use purposes, as such contracts are currently outside the scope of IFRS 7.

Question to Constituents

47 Question 4.1: Do Constituents see a need for the additional disclosure related to the contracts in scope of the amendments in case where such contracts are measured at FV through profit or loss or are designated in the cash flow relationship or Constituents deem that the current disclosure requirements in IFRS 7 and IFRS 13 are sufficient?

Question 5 – Proposed disclosure requirements for subsidiaries without public accountability

Notes to constituents – Summary of proposals in the ED

48 The same disclosure requirements are included in the proposed amendments to IFRS 19 as in the proposed amendments to IFRS 7, except paragraph 42W of the ED.

Question 5 – Proposed disclosure requirements for subsidiaries without public accountability

Paragraphs 67A–67C of the proposed amendments to the forthcoming IFRS 19 Subsidiaries without Public Accountability: Disclosures would require an eligible subsidiary to disclose information about its contracts for renewable electricity with specified characteristics.

Do you agree with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

EFRAG's response

49 Comments included to address the question 4 above apply to the proposed amendments to IFRS 19, both relating to the scope of the proposed disclosure requirements as well as substance of the information to disclosure.

50 Further, EFRAG considers that the requirements proposed within the paragraph 42W of the ED would also be relevant for the subsidiaries without public accountability and specifically the fact that the entity shall consider how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need

additional explanations to evaluate the quantitative information the entity has disclosed. EFRAG suggests to clarify, within the Basis for Conclusions, that these requirements are already incorporated within IFRS 19 Standard and are not specific to the proposed amendments, but however also apply in this case.

Question 6 – Transition requirements

Notes to constituents – Summary of proposals in the ED

51 The ED proposes that the requirements outlined in paragraph 6.10.3 (own-use requirements) shall be applied retrospectively in accordance with IAS 8, however an entity is not required to restate prior periods to reflect the application of the amendments.

52 An entity is permitted to restate prior periods, if, and only if, it is possible to do so without the use of hindsight.

53 If an entity does not restate prior periods, it shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the reporting period in which the entity first applies the amendments in the opening retained earnings (or other component of equity, as appropriate) at the beginning of that reporting period.

54 However, if an entity applies paragraph 6.10.3 in a reporting period that includes the date the amendments are issued, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the date when the amendments are issued in the opening retained earnings (or other component of equity, as appropriate) at the beginning of that reporting period.

55 The ED proposes that the requirements outlined in paragraph 6.10.4-6.10.6 (hedge accounting requirements) shall be applied prospectively to new hedging relationships designated on or after the date the amendments are first applied. An entity is permitted to change the designation of the hedged item in a cash flow hedging relationship that was designated before the date the amendments are first applied. For the avoidance of doubt, such a change to the designation of the hedged item constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

Question 6 – Transition requirements

The IASB proposes to require an entity to apply:

(a) the amendments to the own-use requirements in IFRS 9 using a modified retrospective approach; and

(b) the amendments to the hedge accounting requirements prospectively.

Early application of the proposed amendments would be permitted from the date the amendments were issued.

Do you agree with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

EFRAG's response

56 EFRAG welcomes the approach outlined in the ED.

57 EFRAG suggests allowing entities to re-assess the requirements of paragraph 2.5 of IFRS 9 upon transition to the proposed amendments thus allowing the contracts in scope to still be presented at fair value through profit or loss if requirements in paragraph 2.5 of IFRS 9 are met.

58 EFRAG suggests modifying the requirement included within paragraph 7.2.52 of the ED to limit the possibility for an entity to change the designation of the hedged item designated in a hedging relationship before the date the amendments are first applied only in the first year of the application of the proposed amendments.

59 EFRAG further suggests clarifying the transition requirements for the contracts in scope of the proposed amendments which were previously accounted for as cash flow hedge but will meet the own-use exception requirements based on the proposed amendments.

Question 7 – Effective date

Notes to constituents – Summary of proposals in the ED

60 Subject to feedback on the proposals in this Exposure Draft, the IASB aims to issue the amendments in the fourth quarter of 2024. The IASB has not proposed an effective date before obtaining input about the time necessary to apply the amendments.

Question 7 – Effective date

Subject to feedback on the proposals in this Exposure Draft, the IASB aims to issue the amendments in the fourth quarter of 2024. The IASB has not proposed an effective date before obtaining input about the time necessary to apply the amendments.

In your view, would an effective date of annual reporting periods beginning on or after 1 January 2025 be appropriate and provide enough time to prepare to apply the proposed amendments? Why or why not?

EFRAG's response

61 EFRAG will gather the feedback from its constituents.

Question to Constituents

62 Question 7.1: Do Constituents agree with the IASB's proposed effective date considering the endorsement process in the EU and considering that some EU entities are also foreign public issuers subject to the IFRS requirements in other jurisdictions? Why or why not?