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Summary and analysis of the comment letters received and outreach feedback – Contracts for Renewable Electricity IASB/ED/2024/3

Objective

- 1 The objective of this agenda paper is to:
 - (a) present a summary of both the comment letter feedback and targeted outreach feedback received in response to EFRAG's request for comments; and
 - (b) present an EFRAG Secretariat analysis of the comments received; and
 - (c) provide recommendations to EFRAG FR TEG members (e.g., wording for final comment letter).
- 2 Based on the comments received, the EFRAG Secretariat has developed a revised draft EFRAG final comment letter that is presented as agenda paper 02-03.

Structure of the paper

- 3 This comment letter analysis contains:
 - (a) Background;
 - (b) Summary of respondents;
 - (c) Summary of respondents' views;
 - (d) Main positions in EFRAG's proposed final comment letter;
 - (e) Appendix 1 - detailed analysis of responses to questions in EFRAG's draft comment letter, EFRAG Secretariat's recommendations and questions to EFRAG FR TEG; and
 - (f) Appendix 2 - list of respondents.

Background

- 4 The IASB published its Exposure Draft IASB/ED/2024/3 Contracts for Renewable Electricity (ED) on 8 May 2024. The IASB undertook the project to address the identified issues of IFRS

9 *Financial Instruments* requirements when applied to contracts to buy or sell electricity produced from nature-dependent sources. The project is a fast track to address the stakeholders' call for a timely solution considering the expected increase in the use of Power Purchase Agreements, both physical and virtual (PPAs and (v)PPAs respectively) due to the increase in demand for renewable electricity. The ED includes the proposed amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* Standards.

- 5 EFRAG published its draft comment letter (DCL) on the proposals on 13 June 2024. In the draft comment letter, EFRAG expressed its general support for the proposed amendments geared towards a narrow-scope application, addressing both own-use exception requirements as well as hedge accounting requirements and acknowledged the need for a timely solution.
- 6 In addition, EFRAG provided some comments and considerations related to proposed scope of the amendments, own-use requirements, hedge accounting requirements, disclosure requirements, transition and effective date provisions.
- 7 Specifically for the proposed scope, EFRAG's DCL highlighted that contracts with features other than "pay-as-produced" should be considered in the amendments as long as the said features result in the same or similar economic outcome (for example, "pay-as-forecasted" or "pay-as-nominated" features).
- 8 In relation to the own-use requirements, EFRAG commented, among others, on the time period during which the repurchase of electricity should be assessed as reasonable.
- 9 As it relates to the hedge accounting requirements, EFRAG welcomed the approach which distinguished the considerations for sellers and purchasers of the contract.
- 10 EFRAG's DCL expressed that the disclosure requirements are too extensive and suggested to limit them to the contracts meeting own-use exception requirements.

Summary of respondents

- 11 At the time of writing, 8 comment letters and 3 draft comment letters have been received. The comment letters and draft comment letters are summarised below in Appendix 1. Comment letters currently received as draft versions will be published to the EFRAG's website once their final versions are received. Appendix 2 provides a list of the respondents including the country and type of respondent.
- 12 In addition to the comment letters received, EFRAG participated in a joint outreach event held on 4 July 2024 together with the IASB, ASCG (Accounting Standards Committee of

Germany) and AFRAC (Austrian Financial Reporting Advisory Committee) and discussed EFRAG's DCL with the EFRAG User Panel and EFRAG SRB.

- 13 During the period preceding the publication of the DCL, the EFRAG Secretariat discussed the proposals with the EFRAG FIWG, EFRAG User Panel, EFRAG CFSS, EFRAG FR TEG and EFRAG FRB.
- 14 Since the publication of the DCL, the EFRAG Secretariat discussed the ED proposals with Canada's Accounting Standards Board, New Zealand Accounting Standards Board and Australian Accounting Standards Board. Further, the EFRAG Secretariat observed the UKEB Board and UKEB Financial Instruments Working Group discussions on the subject matter. The objective was to understand the state of play in the different jurisdictions.

Summary of respondents' views

Scope

- 15 All constituents expressed their support for the ED and appreciated the timely manner in which the IASB addresses the own-use and hedge accounting application challenges.
- 16 Several respondents called upon the IASB to promptly address, albeit as a separate project, the accounting for Renewable Energy Certificates or similar (RECs), to consider, as part of the PIR of IFRS 9 *Hedge Accounting*, the extension of scope of hedge accounting requirements to other contracts and / or commodities where similar logic could be applied and to evaluate potential disclosure requirements for own-use contracts outside of the scope of the ED.
- 17 In relation to the current ED, the main concerns raised by the constituents were focusing on:
 - (a) Presence of volume risk when assessing the source of production, asking for clarification of the guidance outlined in BC9 of the ED
 - (b) Assessment of the exposure to substantially all volume risk, considering various market structures (presence of intermediaries, additional agreements), various features contracts may have, such as caps and floors limiting the exposure and definition of the volume risk taking into account the features of the purchaser rather than focusing on the contract terms and conditions.

Own use

- 18 All respondents generally supported the IASB's proposals on the own-use exception but most of them raised specific concerns about the one-month example included by the IASB in paragraph 6.10.3 (b) (iii) of the ED for being too restrictive to capture seasonality.

Furthermore, several respondents raised the concern that oversized contracts that are not entered into for speculative purposes would fail the own-use assessment of the proposals. In addition, individual respondents suggested that the IASB should consider other aspects such as the related ancillary services when assessing whether a contract is for the own-use purposes, how paragraph 6.10.3 (a) interacts with the own-use analysis that are not in the scope of the amendment or providing additional guidance to perform the own-use assessment.

Hedge accounting

- 19 All constituents were generally supportive of the IASB's ED highlighting that the proposals would allow aligning the hedge accounting with the risk management objectives and better reflecting the economic substance of the contracts especially for the sellers of electricity.
- 20 Several constituents raised practical concerns and called upon additional guidance in relation to the following matters:
- (a) Measurement of the ineffectiveness considering that the hedged item is defined and measured by reference to the hedging instrument, thus assuming the hedging instrument volume assumptions, which in practice may pose issues;
 - (b) Assessment of highly probable criterion, noting that the requirements should be consistent with those outlined in paragraph 6.10.3(a) for the estimation of electricity needs for the periods far in the future.

Disclosures

- 21 Many respondents considered that the scope of the proposed disclosures should only apply to contracts for renewable electricity that qualify for own use purposes. Some respondents considered that the information requested in paragraph 42U and/or 42V(a) of the ED fits better in the sustainability report and that the requirements included in paragraph 42V (especially (b) to (d)) are excessive and burdensome. In addition, a few respondents noted that some of the disclosures should be included, if needed, in IAS 37 or IFRS 15 instead so they apply to contracts outside the scope of the proposed amendments. Other individual views raised by respondents are included in the extensive summary in Appendix 1.
- 22 Regarding the disclosures requirements for subsidiaries without public accountability the feedback received was very limited. Two respondents agreed with the comment raised by EFRAG's DCL that paragraph 42W of the ED would also be relevant.

Transition requirements

- 23 Majority of the constituents expressed their support of the considerations outlined in EFRAG's DCL. Several additional comments were raised by the respondents specifically for the hedge accounting transition requirements.
- 24 Several constituents argued that the IASB should consider the application of hedge accounting requirements retrospectively rather than prospectively for both producers and off-takers of the electricity (as a general transition requirement or as an option) considering that based on the current proposals in the ED, there is a perfect economic relationship between the hedged item and the hedging instrument. The question raised by the constituents was how the entity should design the hypothetical derivative and recycle the amount accumulated in OCI as the two elements would have mismatches representing the previously recognised ineffectiveness that would not have occurred if the entity had the possibility to apply the amendment from the inception of the hedging relationship.
- 25 Similar considerations were outlined by constituents when calling for the transition provisions aiming at avoiding the recognition of technical ineffectiveness due to the non-zero starting hedging instrument at hedge inception for contracts that were previously measured at fair value through P&L but could now be designated in hedging relationship.

Effective date

- 26 EFRAG's constituents expressed two views on the matter. Part of the stakeholders noted that the amendments are eagerly awaited and therefore should be applicable as soon as possible, supporting the 1 January 2025 effective date.
- 27 Another part of the stakeholders suggested taking into consideration the endorsement process in Europe and the internal control requirements for the entities subject to the integrated audit report, thus suggesting 1 January 2026 as effective date.

Main positions in EFRAG's proposed final comment letter

Scope

- 28 Considering the feedback received from constituents and the EFRAG FRB and FR TEG members' preliminary views, the EFRAG Secretariat does not recommend any substantial changes to Question 1 in the draft comment letter (DCL).
- 29 The EFRAG Secretariat suggests, however, to convey in the final comment letter (FCL) the points raised by the constituents as to the accounting for RECs, potential expansion of the scope of hedge accounting to other types of contracts or other commodities, and potential disclosure requirements for the own-use contracts outside of the scope of this ED, calling upon the IASB to promptly consider these issues in its upcoming projects.

- 30 The EFRAG Secretariat notes that the majority of the issues raised by the constituents were already included in EFRAG’s DCL, however, additional context and insights were provided by the constituents that the EFRAG Secretariat proposes to include in the FCL.
- 31 For example, the DCL noted that the notion of “substantially all volume risk” is subject to judgement and additional clarifications on how to evaluate this criterion would be helpful. Considering the comments provided by the constituents, the EFRAG Secretariat suggests including specific issues raised by the constituents in relation to the “substantially all volume risk” criterion.
- 32 Similarly, the EFRAG Secretariat notes that the application of the proposals to so-called “baseload” contracts, raised by some of the constituents, would benefit from an amended wording in the FCL to better align with the received comments.

Own-use

- 33 Based on the feedback received, the EFRAG Secretariat recommends the following changes to Question 2 in the draft comment letter. In addition, some minor changes were added for clarity purposes.
- (a) To explain that in some jurisdictions other parties such as the supplier and the aggregator play a role in the distribution of electricity business and to recommend that the IASB clarify than an entity should take these ancillary contracts into consideration when assessing whether a contract for renewable electricity qualifies for own-use purposes; and
 - (b) To recommended that the IASB explicit how paragraph 6.10.3 (a) interact with own-use analysis that are not in the scope of the amendment given the relationship between the paragraphs 6.10.3 (a) and 6.10.2 of the ED (i.e. 6.10.2 restricts 6.10.3 – 6.10.6 to contracts in the scope of the amendments while 6.10.3 (a) specifies that entities should rely on reasonable and supportable information to make estimates).
- 34 In addition, some respondents considered that oversized contracts that are not entered into for speculative purposes should qualify for own-use purposes. The EFRAG Secretariat is not convinced about this proposal. It would often be subjective to distinguish if an oversized contracts is entered into for the purpose of having a buffer to avoid operational downtime or for speculative purposes being therefore difficult to enforce. In addition, it would also defeat the general principle that own-use contracts are entered into in accordance with the entity’s expected purchase, sale or usage requirements. Therefore, the EFRAG Secretariat recommends not to include this suggestion in EFRAG’s FCL.

Hedge accounting

- 35 The EFRAG Secretariat suggests adding to Question 3 the concerns raised by the constituents related to the complexity of the effectiveness test measurement (concerns related to the paragraph 6.10.4(a) and 6.10.6 of the ED).
- 36 The EFRAG Secretariat notes that the considerations related to paragraph 6.10.4(b) of the ED were raised in the DCL, however, suggests enhancing the wording to reflect the comments from the constituents and call for a consistent approach with paragraph 6.10.3(a) outlining the principles and criteria for an entity's estimation of its future electricity needs for periods that are far in the future.
- 37 Lastly, the EFRAG Secretariat considers that some comments provided by the constituents in their answer to Question 1 are also relevant to Question 3 and suggests therefore reflecting those in the FCL. Specifically, the fact that in a net-settled contract will not generally have a 'purchaser' (already addressed in Question 1) and based on the same logic, the seller of a net-settled contract will not be always the producer or the owner of the production facility.

Disclosure requirements

- 38 Based on the feedback received, the EFRAG Secretariat recommends the following change to Question 4 in the draft comment letter. In addition, some minor changes were added for clarity purposes.
- (a) To explain the feedback received that the items of information required in paragraphs 42V(b) – (d) of the ED are excessive and burdensome and that these items are also seen as a proxy of the price of the contract and could be commercially sensitive. Thus, to suggest that the IASB reconsider the appropriateness of these items of information.

Transition requirements

- 39 Based on the feedback received through the comment letters and outreach event, the EFRAG Secretariat recommends no significant changes to the comments already presented in the DCL.
- 40 In addition, the EFRAG Secretariat recommends including the comments received in regard to the possibility to apply hedge accounting requirements retrospectively as well as issues associated with the ineffectiveness due to the non-zero starting point of hedge accounting relationship.

Effective date

- 41 Aiming at a balanced solution to satisfy the views expressed by the constituents, EFRAG suggests an effective date being the annual periods beginning on or after 1 January 2026 with an early application being possible.

Question for EFRAG FR TEG and EFRAG FRB

- 42 Does EFRAG FRB and FR TEG agree with EFRAG Secretariat's recommendations in Appendix 1: Analysis and Summary of Comments received?

Question for EFRAG FR TEG

- 43 Do EFRAG FR TEG agree to recommend the proposed final comment letter for approval by EFRAG FRB?

Question for EFRAG FRB

- 44 Do EFRAG FRB approve for issue the proposed final comment letter?

Appendix 1 - Detailed analysis of responses to questions in EFRAG's draft comment letter, EFRAG Secretariat recommendations and questions to EFRAG FR TEG

Question 1

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?

Summary of constituents' comments

Comment letters

- 45 All constituents expressed their support for the ED in general and appreciated the timely manner in which the IASB addresses the own-use exception and hedge accounting application challenges identified in relation to the (v)PPA contracts.
- 46 Majority of the constituents supported the narrow scope of the proposed amendments. One constituent especially highlighted the need for the proposals to be distinct and not subject to principle-based assessment as they represent significant deviations from the current regulation. Another constituent noted that the proposals represent a first step on the path to better alignment with the US GAAP guidance (where the contracts without a notional which is readily determinable or can be derived from the contractual clauses are not considered derivatives to begin with) and wished for additional changes to the current regulation in this sense to insure more even level playing field between the standards.
- 47 Several responders called upon the IASB to promptly address the accounting for Renewable Energy Certificates or similar (RECs), noting that excluding the accounting for RECs from the scope of the current ED might be misinterpreted in a way that the RECs should not be accounted for as own use. One constituent raised the question of the unit of account suggesting the IASB to investigate the possibility to identify and account for separately for other components of a contract (time or volume components) in its upcoming projects.
- 48 Several responders called upon the IASB to consider the application of hedge accounting proposals to other types of contracts or other commodities as part of the PIR of IFRS 9

Hedge Accounting or as a separate project, noting cases where the reasoning outlined in the IASB's proposals can also be applied (i.e., contractually agreed volume varies with a hedged volume leading to no real ineffectiveness, load-following swaps).

- 49 In addition, a suggestion was made to consider the need for additional hedging requirements for financial instruments with a contingent event feature when assessing the 'highly probable' criterion.
- 50 A respondent highlighted that the IASB should evaluate, as part of a different project, potential disclosure requirements for own use contracts outside the scope of this ED so that the finalisation of the current proposals is not delayed.
- 51 Regarding the characteristics of contracts for renewable electricity, as described in the ED, the comments provided by the constituents are presented below.

Source of production

- 52 Several constituents noted that the examples of the production facilities in scope of 6.10.1(a) being wind, sun and water are helpful, however raised concerns that the guidance outlined in BC9 creates some ambiguity and suggested that the IASB clarifies which characteristics were assessed and what were the IASB's considerations leading to the conclusion that there is no volume risk for some hydro and biomass contracts. Constituents commenting on this issue supported that hydroelectricity should always be in scope of the proposals as, in a longer term, the volume risk is present. Similar comment was provided regarding the biomass. One constituent further suggested that all existing types of renewable energy as well as their characteristics should be taken into account.

Exposure to substantially all volume risk

- 53 Majority of the constituents reacted to the proposed requirements included in paragraph 6.10.1(b) of the ED.
- 54 The notion of substantially all volume risk is requested to be further clarified and delineated given the subjective judgement it entails. Constituents highlighted that it was not clear how the notion of substantially all volume risk is to be assessed and suggested:
- (a) to further clarify that the assessment of substantially all volume risk is to be done at the contract level and not at the unit of production level;
 - (b) to further clarify the level of exposure to the risk noting that the concept of "substantially all" is already used in the analysis of asset derecognition and results in practice in a very high threshold. In some (v)PPAs, the allocation of the uncertainty

can be mitigated by cap and/or floors mechanism that limit the exposure to the uncertainty without removing it fully. With such a high threshold, this condition would result in the exclusion of certain contracts from the scope, which does not seem to be aligned with the objectives of the project;

- (c) to further clarify how the notion of “substantially all volume risk” is to be assessed in presence of intermediaries operating on some markets and /or in case where an entity enters into additional agreements with other counterparties to transfer the uncertainty of nature-dependent feature to a third party;
- (d) to reconsider the definition of the volume risk, noting that the volume risk which involves volume and timing should be linked to the characteristics of the contract rather than the energy consumption of the purchaser.

55 Majority of the constituents commented that the scope should not be limited to the contracts having “pay-as-produced” feature referenced in the ED and the contracts with similar other features should be considered (i.e. “pay-as-forecasted”, “pay-as-nominated”). One constituent further suggested that the IASB clarifies its considerations related to the so-called “baseload” contracts.

56 One constituent noted that the contracts meeting the requirements of 6.10.1(a) would be subject to volume risk and challenged the usefulness of the term “substantially all” as creating additional area of judgement.

The term “renewable electricity”

57 Some constituents commented on the use of the term “renewable electricity” noting that it may lead to ambiguity and create additional layer of complexity, considering how it interfaces with the RECs. Further, constituents noted that the scope of the IASB’s proposals as currently outlined in 6.10.1 will not be impacted if the term “renewable” is omitted or suggested to consider another wording reflecting that the scope refers to characteristics of the production facility rather than the labelling of the electricity features in the marketplace.

Other matters

58 Some constituents highlighted that the proposed scope is applicable to both own-use exception requirements and hedge accounting requirements and therefore should accommodate both physical and virtual contracts. Constituents noted that in virtual PPAs there is no “purchaser” of electricity in a derivative contract that is only net settled and suggested to reconsider the wording used (proposed wording is “party to a contract which

is not electricity producer”). Similar considerations were provided in regard to “contracts for renewable electricity”, noting that in case of the net settlement, renewable electricity is a referenced underlying and the contracts are therefore “contracts referencing renewable electricity”.

Outreach activities

- 59 Participants to the outreach noted that the “pay-as-produced” criterion is too narrow and other features should be considered (“pay-as-forecasted”, “pay-as-nominated”).
- 60 It was further raised that the criterion “transfer of the volume risk to the purchaser” is a suboptimal limitation; rather, the timing risk is key. In addition, non-storability is a crucial point, but this is not formulated as a feature.
- 61 Moreover, it was pointed out that contracts without price risk are not relevant for the ED and that this should be expressed more clearly within the scope description.
- 62 Finally, it was mentioned that cap clauses or “baseload contracts” are also widespread and relevant. It seems unclear whether these types of contracts are covered by the proposals, as in these cases the volume risk was transferred only partially.

Question 2

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?

Summary of constituents' comments

Comment letters

- 63 All respondents generally supported the IASB’s proposals on the own-use exception. Most of them raised specific concerns on the below aspects.
- 64 Almost all respondents raised concerns about the one-month example included by the IASB in paragraph 6.10.3 (b) (iii) of the ED. Respondents noted that one month is too restrictive and could be interpreted as a maximum timeframe. They also shared some seasonality related fact-patterns where one month may not suffice (e.g. during the stormy season in the Nordic countries, offshore wind production can be well above normal production levels for several weeks). The following solutions were proposed:

- (a) To specify in the ED that a “reasonable amount of time” should be based on an entity’s operations to capture seasonality;
- (b) To extend the one-month example to capture seasonality while also stating that the period should not be longer than 12-months as an anti-abuse provision;
- (c) To delete the one-month example;
- (d) To extend the wording to underline that the features of the production facility may indicate that a longer period is ‘reasonable’; and
- (e) To clearly define the concept of reasonable time.

65 Several respondents raised the concern that some oversized contracts (i.e. contracts that provide more electricity than an entity’s consumption) would not be within the scope of the proposals. They noted that some entities enter into contracts for renewable electricity to avoid any interruption or downtime of their operations rather than for speculative purposes. Respondents were not convinced that these contracts do not qualify for own use purposes although one of them noted that this discussion would probably need to be part of a different project so not to delay the current proposals.

66 Similarly, one respondent explained that the repurchased volume should not be linked to timing but rather to the best estimate of production or consumption that the management of an entity can provide (i.e. if management estimates a significant increase or decrease in production for a justified reason, the volume to be repurchased may change).

67 One respondent explained that in addition to the purchaser and seller, the supplier, which connects the purchaser to the grid, and the aggregator, which ensures the stability of the electricity grid by balancing supply and demand, play a role in the distribution of electricity business in its jurisdiction. The respondent suggested that an entity should be required to consider all the related ancillary services contracts when assessing whether a contract for renewable electricity is in the scope of the amendments and qualifies for own use purposes.

68 One respondent suggested that the IASB should include the numerical example provided in AP3A of the IASB meeting held in March 2024 as an illustrative guidance to this amendment to help indicating the level to which an entity is allowed to buy and repurchase electricity while remaining under the scope of the own use requirements.

69 Paragraph 6.10.2 of the ED specifies that paragraphs 6.10.3 – 6.10.6 only apply to contracts for renewable electricity in the scope of the proposed amendments. One respondent was of the view that the concept introduced by the IASB in paragraph 6.10.3 (a) (i.e. relying on

reasonable and supportable information) should not be limited to contracts in the scope of the proposed amendments. Thus, this respondent recommended that the IASB explicit how this paragraph interact with own-use analysis that are not in the scope of the amendment.

- 70 One respondent recommended that the IASB add additional guidance and examples to help entities perform the required own use assessments and avoid divergence in practice. In addition, the respondent recommended that the reassessment of whether a contract qualifies for own use purposes should only be made if significant changes to the contract or the circumstances indicate that a material impact on the financial statements is to be expected rather than at each reporting date.
- 71 One respondent highlighted that paragraph 6.10.3(b)(ii) of the ED only refers to broad market factors but does not consider entity specific factors which may be relevant in assessing whether a contract for renewable electricity is for own use purposes (e.g. whether an entity has the practical ability to store the electricity)

Outreach events

- 72 Participants to the outreach challenged the ‘repurchase’ criterion included in paragraph 6.10.3(b)(iii) of the ED. They noted that sales of excess energy and repurchases are not always linear, in the same order or in the same quantities. Furthermore, sales and repurchase cannot always be allocated to the same contract but to a portfolio of contracts or event to different group entities. They also noted that the one-month example was not large enough to capture seasonality.
- 73 Participants also noted that the proposals are not fit for oversized contracts. In this regard, it was noted that contracts are considered as a portfolio where the surpluses of some contracts are offset by the shortcomings of others.

EFRAG Secretariat's recommendations to EFRAG FR TEG on EFRAG's proposed final position

Question 3

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?

Summary of constituents' comments

Comment letters

- 74 All constituents were generally supportive of the IASB's ED highlighting that the proposals would allow aligning the hedge accounting with the risk management objectives and better reflecting the economic substance of the contracts especially for the sellers of electricity.
- 75 Several constituents commented on the reversed sequence of the hedging logic (hedged item defined by reference to the hedging instrument) considering this to be a deviation from the general hedge accounting principles which may lead to:
- (a) Questions in relation to the hedge accounting documentation;
 - (b) Questions related to the effectiveness tests.
- 76 One constituent commented that applying hedge accounting would still be very cumbersome and challenging in practice due to the long duration of virtual PPAs and the complexity of making reliable fair value measurements for such contracts.
- 77 Indeed, according to paragraph 6.10.4 (a) of the ED, 'the hedged item is specified as the variable volume of electricity to which the hedging instrument relates'. The proposed amendment aims at ensuring that the consumption profile and the production profile are fully aligned to avoid any potential inefficiency arising from the profile mismatch when assessing the economic relationship. However, the profile itself must be highly probable from the purchaser's perspective at any given time.
- 78 Further, as outlined in paragraph 6.10.6 of the ED, "an entity shall measure the hedged item using the same volume assumptions as those used for measuring the hedging instrument". This requirement also indicates that the time intervals over which the hedged

item should be measured is the relevant spot trading unit of the electricity market of the hedging instrument. However, since the delivery of the electricity happens at very granular time intervals, down to 15 minutes or even less in some markets, the assessment of the highly probable criterion at each of these time intervals can be burdensome for the preparers who are purchasers in the (v)PPA.

- 79 Constituents commenting on this matter encouraged the IASB to include a comprehensive illustrative example.
- 80 In relation to the requirement of paragraph 6.10.4(b), several constituents noted that the assessment of highly probable criterion represents a challenge considering the duration of the contracts and suggested an approach consistent with paragraph 6.10.3(a) outlining the principles and criteria for an entity's estimation of its future electricity needs for periods that are far in the future.

Outreach events

- 81 In general, the proposals included in the ED were welcomed.
- 82 It was expressed, however, that the amendments represent a good solution for producers/suppliers rather than for buyers, reason being the highly probable requirement. For buyers, vPPAs are now eligible for designation as a hedging instrument, including a variable quantity. Nevertheless, the existing conditions of probability of occurrence and measurability of expected effectiveness remain valid. It is therefore undisputed that the designated hedging instrument (in particular the designated volume) must reach the probability threshold.

Question 4

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?

Summary of constituents' comments

Comment letters

- 83 Two respondents agreed with the IASB's suggested disclosures. He was of the view that fair value has little, if any, value to investors and users, given all the uncertainties around key valuation inputs. Another respondent considered that the requirements included in paragraph 42T of the ED are reasonable and well-balanced. Another respondent agreed with the IASB that the terms and conditions of the contracts and the average market price are readily available and should be provided. Other respondents agreed with the disclosures proposed by the IASB except for the remarks included below.
- 84 Many of respondents considered that the scope of the proposed disclosures should only apply to contracts for renewable electricity that qualify for own use purposes. Two of them generally agreed with EFRAG's DCL with a special emphasis on this aspect. Another respondent considered that the information required for contracts accounted for at fair value was to a certain extent redundant with the information already required by IFRS 7 and IFRS 13. Conversely, one respondent considered that homogeneous information for contracts having the same economic characteristics may be useful for users even when the accounting treatment of such contracts is different.
- 85 In line with EFRAG's DCL, some respondents considered that the information requested in paragraph 42U and/or 42V(a) of the ED fits better in the sustainability report. One of them also noted that since the scope of the amendments does not include all contracts for renewable energy, the disclosure would be misleading.
- 86 Some respondents considered the disclosure requirements included in paragraph 42V (especially (b) to (d)) to be excessive, burdensome and potentially resulting in misleading information. Furthermore, it was also noted that this disclosure could be seen as a proxy of the price of the contract and be commercially sensitive and that other IFRS Standards do not require entities to provide similar information. One additional respondent pointed that this information could be required only if an entity does not disclose the fair value of the contract. Otherwise, the benefits of the disclosure may not outweigh the costs of applying the requirements.
- 87 One respondent stressed that paragraph 42U of the ED requires disclosures about contracts that are in the scope of IFRS 15. They considered that IFRS 15 disclosure requirements suffice but recommended that, if needed, additional disclosures should be mandated by IFRS 15 rather than by IFRS 7.

- 88 Another respondent expressed the view that the disclosure requirements proposed in the ED should be requested in IAS 37 and IFRS 15 instead so they apply to executory contracts outside of the scope of the ED. They also noted that the IASB should clarify if the requirement included in paragraph 42U of the ED only applies to renewable energy producers. Otherwise, the disclosure may be applicable to buyers performing sales due to a mismatch.
- 89 One respondent agreed with the suggestion included in EFRAG’s DCL that the disclosure requirement in paragraph 42T of the ED should be mandatory, as it relates to the disclosure of volume by range of periods but to give an entity flexibility to define relevant time ranges. They also agreed with EFRAG that 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).
- 90 One respondent noted the lack of linkage between the disclosure objectives included in paragraph 42T of the ED and the proposed requirements, especially in the case of the proposal include in paragraph 42U, and encouraged the IASB to include the linkage. Another respondent considered that the disclosure objectives should only be stated once and avoid using the same terminology.

Outreach events

- 91 Participants to the outreach raised the concern that the disclosures required for the contracts in the scope of the proposed amendments are more extensive than for other similar contracts. It was suggested that the disclosures should only be required to contracts that meet the own-use requirements. Furthermore, it was unclear whether the volume disclosure required by paragraph 42U of the ED refers to energy units or monetary units.
- 92 Members of the EFRAG User Panel noted that this project demonstrated the connectivity between financial and sustainability reporting and supported the consistency of overlapping disclosures. Members also discussed whether brown energy could be claimed to be renewable if an entity bought separated renewable energy certificates (RECs). On this aspect, members provided mixed views. A member noted that sustainability reporting did not permit this practice and therefore brown energy could not turn into green energy by attaching RECs. Conversely, another member explained that this was a usual practice in her jurisdiction.
- 93 One member of the EFRAG User Panel considered that sustainability disclosures were helpful especially those providing information on the seller of renewable energy. He was of the view that sustainability reporting should take the lead to provide sustainability disclosures. Sustainability information might be included in financial reporting but it should

be taken from sustainability reporting to be consistent. A few members considered that some information on RECs should be disclosed for transparency purposes.

- 94 A member of the EFRAG User Panel noted that investors were more interested in understanding the actual cost of electricity per kilowatt and how variable this is going to be going forward rather than sustainability aspects. The purpose was to use this information to build discounted cash flows. He considered that the disclosures requested in the ED were generally useful and helped him in understanding cash flows but did not necessarily provide investors with the implications and risks of an entity moving towards a renewable energy consumption approach (e.g. what are the risks of prices being negative due to an excess in production and how an entity could mitigate that).

Question 5

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?

Summary of constituents' comments

- 95 Feedback received on this question was limited to three respondents. One of them agreed with the IASB's proposals because entities are exposed to significant risk due to the long-term nature of these contracts and users should receive adequate information. In his view the required information must be readily available.
- 96 Two respondents agreed with the comment raised by EFRAG's DCL that paragraph 42W of the ED would also be relevant for the subsidiaries without public accountability

EFRAG Secretariat's recommendations to EFRAG FR TEG on EFRAG's proposed final position

- 97 Based on the feedback received, the EFRAG Secretariat recommends not to make any changes to Question 5 in the draft comment letter.

Question 6

Question 6 – Transition requirements

The IASB proposes to require an entity to apply:

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

Summary of constituents' comments

Comment letters

- 98 Majority of the constituents were supportive of the IASB's proposals and also agreed with EFRAG's comments included in the DCL.
- 99 Several constituents argued that the IASB should consider the application of hedge accounting requirements retrospectively rather than prospectively for both producers and off-takers of the electricity (as a general transition requirement or as an option) considering that based on the current proposals in the ED, there is a perfect economic relationship between the hedged item and the hedging instrument.
- 100 To support the discussion, these constituents considered a situation where an entity previously designated the hedged item as a fixed quantity, triggering ineffectiveness, but would amend the designation of the hedged item as proposed by paragraph 7.2.52 of the ED. The question raised by the constituents was how the entity should design the hypothetical derivative and recycle the amount accumulated in OCI as the two elements would have mismatches representing the previously recognised ineffectiveness that would not have occurred if the entity had the possibility to apply the amendment from the inception of the hedging relationship.
- 101 One of the constituents asked to clarify the date at which the modelling of a hypothetical derivative should be performed when measuring the ineffectiveness of the hedging relationship at transition and how to account for the ineffectiveness thus identified (through equity, P&L or spreading over the residual maturity).

- 102 Another constituent called for the transition provisions aiming at avoiding the recognition of technical ineffectiveness due to the non-zero starting hedging instrument at hedge inception for contracts that were previously measured at fair value through P&L but could now be designated in hedging relationship.

Outreach events

- 103 No issues were raised regarding the proposals of the ED.

Question 7

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?

Summary of constituents' comments

Comment letters

- 104 EFRAG's constituents expressed two views on the matter. Part of the stakeholders noted that the amendments are eagerly awaited and therefore should be applicable as soon as possible, supporting the 1 January 2025 effective date.
- 105 Another part of the stakeholders suggested taking into consideration the endorsement process in Europe and the internal control requirements for the entities subject to the integrated audit report, thus suggesting 1 January 2026 as effective date.

Outreach events

- 106 In response to the IASB suggestion (first-time application from 1 January 2025), it was suggested that mandatory first-time application from 1 January 2026 would be more appropriate, accompanied by an option for voluntary early application.

Appendix 2 - List of respondents

1 Comment letters received:

No	Name of constituent	Country	Type/Category
CL01	ANC	France	National Standard Setter
CL02	Ermelindo Varela	Belgium	Solo practitioner
CL03	ESBG	Europe	Preparers organisation
CL04	OIC	Italy	National Standard Setter
CL05	SCRB	Sweden	National Standard Setter
CL06	ICAC	Spain	National Standard Setter
CL07	Accountancy Europe	Europe	Accounting organisation
CL08	DASB	Netherlands	National Standard Setter
DCL1	Draft 1	Europe	National Standard Setter
DCL2	Draft 2	Europe	National Standard Setter
DCL3	Draft 3	Europe	Enforcer