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~~[Draft]~~ Comment Letter

International Accounting Standards Board

7 Westferry Circus, Canary Wharf

London E14 4HD

United Kingdom

[XX Month 2024]

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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* (the 'ED'), issued by the IASB on 8 May 2024.

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 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* and supports the IASB in this task.

Overall, EFRAG is supportive of the direction of IASB's proposals geared towards a narrow-scope application, addressing both own-use exception requirements as well as hedge accounting requirements. The topics are complex both in their nature and in there accounting solution within IFRS. It is important to find the right wording for the amendments to achieve their intended objective.

Scope

EFRAG generally supports the narrow scope of the proposed amendments.

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However, EFRAG suggests clarifying the considerations when assessing the exposure to substantially all volume risk, considering market structure and contract features such as volume caps and / or floors.

Furthermore, 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 contracts with the aforementioned features should be ~~considered in~~within the scope of the proposed amendments.

Own-use assessment

EFRAG agrees with the direction of the proposals on 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 restrictive~~. EFRAG recommends that the IASB elevates to the main body of the proposals the wording included in paragraph BC20(c) of the Basis for Conclusions on the ED, which indicates that 'Reasonable' depends on an entity's operations. The IASB could also provide an example of what might constitute an unreasonable timeframe, such as a period of more than 12 months.~~ and proposes a 12-month limit that will reflect most normal volumetric seasonality in nature dependent production.

EFRAG ~~suggests removing from~~recommends that the IASB explain how 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~~interact with own-use assessments that are ~~far~~not in the ~~future).~~scope of the proposed amendments. By including this text, it might be interpreted as requiring entities to make detailed estimates for periods longer than 12 months for other own-use assessments conducted 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.

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Based on the feedback received, EFRAG would welcome the IASB providing comprehensive illustrative examples to address application questions related to the measurement of ineffectiveness.

Further, EFRAG suggests providing guidance for the assessment by a purchaser of the 'highly probable' criterion. EFRAG proposes that the approach of the assessment should be 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.

Disclosure requirements

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

EFRAG recommends that the IASB reconsiders the disclosure requirements outlined in paragraphs 42V(b) – (d) of the ED as they are perceived as unsuitable. Instead, information related to the financial impacts of the sales of unused volumes may be helpful to enable users understand how the contracts in scope of the ED affect the purchaser's financial performance for the reporting period.

EFRAG also questions whether the items of information requested in paragraph 42U and in paragraph 42V(a) of the ED are fit for the purpose of financial statements as this information may be better placed in the sustainability report. Furthermore, it may interfere with the information provided as part of the sustainability reporting, thus creating inconsistencies.

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

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

Question 1 – Scope of the proposed amendments

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

1 EFRAG appreciates the 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.

Source of production

2 Paragraph 6.10.1(a) of the ED states 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 recommend that all electricity contracts where there is uncertainty about the timing or volume of electricity coming from converting energy from sun, wind or water should be candidates for being within the scope. If continuing with the current wording, EFRAG recommends that the IASB clarifies the meaning of 'nature-dependent' in light of BC9 of the Basis for Conclusions on 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).~~ and 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.

~~3 EFRAG's understanding is that the IASB did not intend to exclude from the scope the so-called baseload contracts when the source of production is nature-dependent. However, EFRAG notes that the current wording of paragraph 6.10.1(a) of the ED constitutes an obstacle to this intention because, in a baseload contract, both volume and timing are~~

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~~specified and fixed (therefore baseload contracts would fail the requirements of paragraph 6.10.1(a) of the ED). EFRAG supports the intention to include the said contracts within the scope of the amendments and suggests the IASB reconsider the requirements of paragraph 6.10.1(a) of the ED.~~

3 At the same time, EFRAG notes that the notion of 'guaranteed supply' may be subject to interpretation and may create additional complexity in the scope assessment, and potentially unwittingly exclude contracts where the entire production is contractually taken by various purchasers some of whom with fixed volumes. EFRAG suggests specifying that the contract in scope should contain uncertainty as to the volume of electricity to be delivered from the specified facility(ies) and / or the timing of the delivery rather than using the wording 'supply cannot be guaranteed'.

Exposure to substantially all volume risk

4 Paragraph 6.10.1(b) of the ED requires that the contract must expose 'the purchaser to substantially all the volume risk under the contract through 'pay-as-produced' ~~features'~~features. Volume risk in paragraph 6.10.1(b) of the ED 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'.

5 EFRAG notes that the wording 'substantially all' is a judgmental criterion ~~and~~which may lead to a diversity in practice, however if the IASB is continuing with the current wording, EFRAG suggests providing additional clarifications regarding the factors to be considered when evaluating contracts against 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.~~, including:

(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, thereby ensuring that purchasers of portions of the production are not excluded from the scope of the amendments;

(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 floor mechanism that limits the exposure to the uncertainty without fully removing it. With such a high threshold, this condition

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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 in 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.

6 At the same time, EFRAG is concerned that the current drafting limits the scope ~~to~~ solely to the contracts with 'pay-as-produced' feature, noting that many contracts within the 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 of the ED are to be assessed for 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.

7 ~~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. The feedback received by EFRAG revealed that purchasers may have ancillary contracts, for example, aggregator contracts, which further complicates the assessment of the volume risk.~~Moreover, EFRAG notes that significant fixed profile contracts including so-called 'baseload' contracts are present on the market in various jurisdictions and represent a significant portion of the renewable electricity contacts. EFRAG finds it important that these contracts, as long as they are not oversized in comparison to expected usage over the duration of the contract and fulfil the criteria being expected to come from the renewable electricity facility and containing volume or timing uncertainty, are in scope of the proposed amendments.

The term 'renewable electricity'

8 EFRAG suggests reconsidering 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, EFRAG notes that the scope of the IASB's proposals, as currently

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outlined in 6.10.1, will not be impacted if the term 'renewable' is omitted or another term is used, reflecting that the scope refers to characteristics of the production facility rather than the labelling of the electricity features in the marketplace.

Other matters

9 EFRAG highlights 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. There is no 'purchaser' or 'seller' of electricity in a derivative contract that is only net settled and suggested to reconsider the wording used. Similar considerations are applicable regarding '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' or similar wording applicable to net settled contracts.

10 EFRAG acknowledges the time constraint for this project and supports its narrow scope, however, calls upon the IASB to address in a prompt manner albeit in a separate project the accounting for RECs or similar certificates, to expand the scope of the hedge accounting proposals to other types of contracts and commodities in its upcoming PIR on IFRS 9 *Hedge Accounting* and to consider potential disclosure requirements for the own-use contracts outside of the scope of this ED.

~~7~~11 For the avoidance of doubt, EFRAG recommends the IASB to clarify the interaction between the requirements in paragraph 6.10.2 and the guidance in the section 'Selection and application of accounting policies' in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 8 *Basis of Preparation of Financial Statements* (as updated by IFRS 18 *Presentation and Disclosure in Financial Statements*) stating explicitly that the paragraphs 10 and 11 of IAS 8 should not be used by reference to the proposed amendments.

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Question 2 – Proposed 'own-use' requirements

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

~~8~~12 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.

~~9~~13 Paragraph 6.10.3 (b)(iii) of the ED specifies 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 reasonable timeframe. EFRAG is of the view that one month may be too restrictive ~~for some industries, for instance, those affected by~~ and not reflect the seasonality~~. To give more prominence~~ that might be a general driver to the ~~specific circumstances of entities~~nature-dependent volume uncertainty in electricity production from wind, sun or water. For this reason, EFRAG recommends that the IASB ~~elevates to the main body of the proposals~~ states that the reasonable time period is affected by the ~~wording included in paragraph BC20(c)~~seasonality of the ~~Basis for Conclusions on the ED which indicates that 'Reasonable' depends on an entity's operations. The IASB could also provide an example of what might constitute an unreasonable timeframe, such as a period beyond~~production plant with a period of no longer than 12 months.

~~10~~14 Paragraph 6.10.3(a) of the ED requires an entity to 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~~a common purpose for entering into these contracts, which is not relevant ~~to assess~~when assessing whether the contracted electricity is for own-use purposes. ~~Therefore~~To avoid focusing the assessment on aspects that may be irrelevant, 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.

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~~11~~15 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 ED proposals. Paragraph 6.10.3(a) of the ED also requires that an entity considers 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 the 12-month timeframe, 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.

~~12~~16 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 a 12-month period. 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~~Consequently, EFRAG recommends that the IASB explains how paragraph 6.10.3(a) interacts with own-use assessments conducted for contracts that are not in the scope of the proposed amendments. In addition, to make the paragraph more concise we suggest 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).

~~13~~17 Paragraph 6.10.3(b) of the ED provides 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 participants in the electricity market to balance the supply and demand for electricity before the period of delivery/consumption. In such cases, all expected sales to correct for 'over-sized' purchases or misalignment with expected consumption will have to be conducted in the forward or spot market before the period of delivery. Any 'sales' within a short period after delivery would be for unexpected reasons. 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

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(or shortly after) would be arbitrary. Therefore, we encourage the IASB to reconsider the use of the wording 'within a short period after delivery'.

~~14~~18 EFRAG also considers that it might be useful to clarify how an entity may perform the assessment from a practical perspective, as required in paragraph 6.10.3(b) of the ED. 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.

~~15~~19 Furthermore, regarding the criterion included in paragraph 6.10.3(b)(ii) of the ED (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 driver 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 sales price. Hence, we encourage the IASB to consider whether it is necessary to make reference to 'price'.

~~16~~20 Entities may have several PPAs, and we do not expect that purchases under one of these other PPAs constitute a purchase as described in paragraph 6.10.3(b)(iii) of the ED. Therefore, 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.

21 EFRAG has received the feedback that in some jurisdictions, in addition to the purchaser and seller, other parties such as a supplier, which connects the purchaser to the grid, or an aggregator, which ensures the stability of the electricity grid by balancing supply and demand, play a role in the distribution of electricity business. We recommend that the IASB clarify in the amendments that an entity should take the related ancillary services contracts into consideration when assessing whether a contract for renewable electricity qualifies for own use purposes.

~~17~~22 Lastly, EFRAG suggests that the IASB ~~clarifies if~~clarify at which level an entity should conduct the own-use assessment ~~should be conducted~~(i.e. at the ~~contract~~reporting unit level or at a different level~~.~~

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Question 3 – Proposed hedge accounting requirements

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

~~18~~23 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 simultaneously and welcomes the IASB's consideration on the matter. EFRAG notes that paragraph 6.10.4(a) is based on the reversed sequence of the hedging logic (hedged item is defined by reference to the hedging instrument). Except from the deviation of a principle, EFRAG has currently not identified this to be an issue, however, suggests clarifying the application questions raised by the constituents.

~~19 For the avoidance of doubt, the comments provided in our reply to Question 1 on the scope of the proposed amendments apply equally to the proposed own-use requirements and to the proposed hedge accounting requirements.~~

~~20 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 paragraph BC35 of the Basis for Conclusions on the ED presents this proposal as an exception, EFRAG expects that those forecasted sales are highly probable by design and suggests further clarifications on the matter.~~

24 ~~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.~~Indeed, according to paragraph 6.10.4(a) of the ED, 'the hedged item is specified as the variable volume of

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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. 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. It is not clear, how the hedging relationship shall be measured (how paragraph 6.10.6 is to be applied) if the hedged item and the hedging instrument are in electricity markets having different trading units (i.e. 15-minute delivery market vs 1-hour consumption market).

~~21~~25 EFRAG encourages the IASB to include a comprehensive illustrative example or examples to help the stakeholders with application questions.

~~22~~26 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. The long duration of the contracts in scope (commonly over 15 years) raises questions about whether such assessment can be documented satisfactorily. Further, EFRAG suggests that the approach of the assessment should be 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.

27 EFRAG notes that in net-settled contracts, there is no purchaser or producers, as the contracts are net-settled, and the seller in a (v)PPA may or may not own or control the production facility. Considering that the paragraph 6.10.5 allows for the forecasted sales not to be highly probable, EFRAG suggests rewording the paragraph 6.10.5 in a way to mitigate the risk of unintended consequences. For examples: *if an entity designates renewable-electricity sales in accordance with paragraph 6.10.4(a), such forecasted sales are not required to be highly probable if the hedging instrument relates to a proportion of the total future renewable electricity sales* ***the entity will make*** *from the production facility* ***or facilities*** *as referenced in the hedging instrument. (added text in* ***bold****)*

Question 4 – Proposed disclosure requirements

Question 4 – Proposed disclosure requirements

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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

~~23~~28 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 additional burden to 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 the own-use exception.

~~24~~29 EFRAG suggests that the disclosure requirement of volume by range of periods in paragraph 42T(b)((ii) 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 prescribing those. Therefore, the disclosure should require an ~~explanation~~estimate of the volumes to be purchased or sold using the range of periods considered appropriate by the entity.

~~25~~30 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~~are fit for the purpose of financial statements. This information may be better placed in the sustainability report. In addition, since the scope of the amendments does not capture all

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contracts for renewable electricity, the requested information may be misleading as it is incomplete.

~~26~~31 Regarding the requirement in the first sentence of paragraph 42U of the ED, EFRAG notes that contracts meeting the own-use exception generally will be subject to the disclosure requirements in IFRS 15~~. Contracts within the scope of paragraph 6.10.1 of the ED 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.~~, including a disclosure objective which requires entities to disclose information that enable users understand the nature, amount, timing and uncertainty of revenue. If an entity has relevant sales of renewable electricity, it should disclose this information following the IFRS 15 guidance on disaggregation of revenue. Hence, EFRAG proposes to omit paragraph 42U of the ED.

~~27~~32 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.

33 In this regard, EFRAG has received the feedback that the items of information required in paragraphs 42V(b) – (d) of the ED are excessive and burdensome. These items are also seen as a proxy of the price of the contract and could be commercially sensitive. In addition, there would be significant differences with the disclosures required for other executory contract outside the scope of these proposals. Therefore, we suggest that the IASB reconsider the appropriateness of these items of information.

~~28~~34 As a technical detail, EFRAG notes that paragraphs 42T – 42W of the ED 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 5 – Proposed disclosure requirements for subsidiaries without public accountability

Question 5 – Proposed disclosure requirements for subsidiaries without public accountability

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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

~~29~~35 EFRAG highlights that IFRS 19 Subsidiaries without Public Accountability: Disclosures has not yet been endorsed in the EU. Therefore, the endorsement of the amendments resulting from this ED is conditional on the outcomes of the EU endorsement process of IFRS 19.

~~30~~36 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.

~~31~~37 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~~clarifying, within the Basis for Conclusions, that these requirements are already incorporated within IFRS 19 Standard and are not specific to the proposed amendments, but also apply in this case.

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Question 6 – Transition requirements

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

~~32~~38 EFRAG welcomes the transition requirements approach outlined in the ED.

~~33~~39 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.

~~34~~40 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.

~~35~~41 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.

42 In regard to the application of hedge accounting requirements, EFRAG suggest the IASB to consider the possibility to apply said requirements retrospectively, considering that based on the current proposals in the ED, there is a perfect economic relationship between the hedged item and the hedging instrument. An entity, which would have previously designated the hedged item as a fixed quantity with the resulting ineffectiveness of the hedging relationship, should be able to neutralise the effects of such previous ineffectiveness when amending its hedging relationship as provided in paragraph 7.2.52 of

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the ED. An entity, which would previously not have designated a hedge relationship, but with the proposed amendments could have had designated a hedging relationship resulting in no price or volume ineffectiveness should not now be forced to recognise ineffectiveness, during the entire hedging period, just because of the non-zero fair value of the hedging instrument at first time adoption of the amendments.

Question 7 – Effective date

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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

43 EFRAG ~~is seeking feedback from~~'s constituents expressed two views on ~~whether~~ 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 ~~is appropriate.~~ .

44 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.

~~36~~45 To satisfy both views, EFRAG suggests an effective date being the annual periods beginning on or after 1 January 2026 with early application being possible.

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