EFRAG
Financial reporting

Comment Letter

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

31 July 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* (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 Accounting Standards in the European Union and the 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 the 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 their accounting solution within IFRS Accounting Standards. Therefore, it is important to find the right wording for the amendments to achieve their intended objectives.

Scope

EFRAG generally supports the narrow scope of the proposed amendments.

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 contracts containing the 'pay-as-produced' feature; however, there is a wide variety of contracts containing 'pay-as-forecasted', 'pay-as-nominated' and similar features. EFRAG believes that contracts with the aforementioned features should not be scoped out 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 purchases are 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 and proposes a 12-month limit that reflects most normal volumetric seasonality in nature-dependent production.

EFRAG recommends that the IASB explain how paragraph 6.10.3(a) interacts with own use assessments for contracts that are not in the 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.

Hedge accounting requirements

EFRAG welcomes the IASB's thorough approach to distinguishing the considerations for sellers and purchasers. However, EFRAG suggests providing guidance for the assessment made by a purchaser of the 'highly probable" criterion.

Disclosure requirements

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

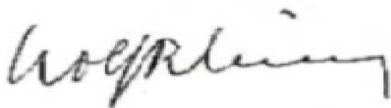
EFRAG recommends that the IASB reconsider the disclosure requirements outlined in paragraph 42V of the ED as they are perceived as unsuitable. Instead, information related to the financial impacts of the sales of unused volumes may help users understand how the contracts in the scope of the ED affect 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 purposes 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

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 to address the 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.

<u>Source of production</u>

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 recommends that all electricity contracts where there is uncertainty about the timing or volume of electricity coming from converting energy from sun, wind or water be candidates for falling within the scope. If it is decided to continue with the current wording, EFRAG recommends that the IASB clarify the meaning of 'nature-dependent' in light of BC9 of the Basis for Conclusions on the ED, 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 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, which could potentially unwittingly exclude contracts where the entire production is contractually taken by various purchasers, some 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 or facilities 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 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) 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 which may lead to diversity in practice; however, if the IASB is continuing to use the current wording, EFRAG suggests providing additional clarifications regarding the factors to be considered when evaluating contracts against this criterion, including:

(a) further clarifying 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) further clarifying 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 (virtual) power purchase agreements ((v)PPAs), the allocation of the uncertainty can be mitigated by cap and/or floor mechanism that limits the exposure to the volume uncertainty without fully removing it. 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) further clarifying how the notion of 'substantially all volume risk' is to be assessed in presence of intermediaries operating in some markets and/or in case that an entity enters into additional agreements with other counterparties to transfer the uncertainty of nature-dependent features to a third party; and

(d) reconsidering 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 solely to contracts with the 'pay-as-produced' feature, noting that many contracts within the EU and EEA have 'pay-as-forecasted' / 'pay-as-nominated' features. EFRAG believes that these

contracts should also be considered in the proposed amendments, as they expose the purchaser to similar application issues.

7 Moreover, EFRAG notes that significant fixed profile contracts (thus fixed timing of delivery and fixed volume to be delivered), including so-called 'baseload' contracts, are present on the market in various jurisdictions and represent a significant portion of the electricity contacts linked to production facilities utilising energy from sun, wind or water. It is important for EFRAG that these contracts be in the scope of the proposed amendments so long as they fulfil the criteria of delivering or referring to electricity as being expected to come from facilities converting sun, wind or water energy to electricity and containing volume or timing uncertainty related to the production of such electricity. Should the IASB maintain the exclusion of fixed profile contracts from the scope of the proposed amendments, EFRAG suggests that the IASB provide the rationale for such an exclusion.

<u>The term 'renewable electricity'</u>

8 EFRAG suggests reconsidering the use of the term 'renewable electricity', noting that it may lead to ambiguity and create an additional layer of complexity, considering how it interfaces with the RECs. Further, EFRAG notes 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 another term is used, reflecting the fact that the scope refers to characteristics of the production facility rather than the labelling of electricity features in the marketplace.

<u>Other matters</u>

9 EFRAG acknowledges this project's time constraints and supports its narrow scope; however, it calls upon the IASB to promptly address – albeit in a separate project – the accounting for RECs and similar certificates and to consider potential disclosure requirements for own use contracts outside the scope of this ED.

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

10 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.

11 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 a reasonable time. EFRAG is of the view that one month may be too restrictive and not reflect the seasonality that might be a general driver of the nature-dependent volume uncertainty in electricity production from wind, sun or water. For this reason, EFRAG recommends that the IASB state that the reasonable time period is affected by the seasonality of the production plant within a period of no longer than 12 months.

12 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 (RECs) to contribute to an entity's carbon emission reduction objectives is a common purpose for entering into these contracts. BC11 specifies that the IASB concluded that the accounting treatment of RECs is outside the scope of this project. This may raise the question as to whether contracts whose primary purpose is to acquire RECs (rather than electricity) fail to qualify as own use. EFRAG is of the view that the purpose is not relevant as long as the expected electricity to be delivered over the remainder of the contract is for own use. Hence, EFRAG recommends that the IASB reconsider the requirement that an entity should consider the purpose, design and structure of the contract. Additionally, RECs are usually acquired under these contracts for own use purposes while the electricity component may not fulfil the own use requirement. In such a scenario, EFRAG would support the position that the REC component could still be accounted for as own use in line with current practice.

13 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 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 assessing the consistency between the volumes expected to be delivered and the entity's need for 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.

14 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 covers 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 that the IASB explain 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).

15 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 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 (inside and/or outside the scope of these amendments) for simultaneous delivery in a defined grid location, defining from which of these contracts sales occurred in the delivery period (or shortly after) would be arbitrary. Therefore, we encourage the IASB to reconsider the use of the wording 'within a short period after delivery'.

16 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.

17 Furthermore, regarding the criterion included in paragraph 6.10.3(b)(ii) of the ED (i.e. the design and operation of the market preventing 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'.

18 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.

19 EFRAG has received feedback whereby 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 electricity qualifies for own use purposes so that an entity can demonstrate whether it remains a net purchaser of electricity over a reasonable timeframe.

20 Lastly, EFRAG suggests that the IASB clarify at which level an entity should conduct the own use assessment (i.e. at the reporting entity level or at a different level). For the purposes of assessing whether an entity expects to use the electricity to be delivered by the contract for own purposes, EFRAG is of the view that considering only the site for which the electricity is intended or the entity signing the agreement is too restrictive if other sites or entities within the reporting entity use electricity in the same grid area.

Question 3 – Proposed hedge accounting requirements

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>
> 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

21 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 considerations on the matter.

22 However, some application questions were raised by EFRAG's constituents. 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. 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 interval 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 is to be measured (i.e. how paragraph 6.10.6 is to be applied) if the hedged item and the hedging instrument are in electricity markets with different trading units (i.e. 15-minute versus 1-hour market).

23 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 and how such assessment can be satisfactorily documented.

24 EFRAG encourages the IASB to include a comprehensive illustrative example or group of examples to help the stakeholders address application questions.

25 EFRAG notes that in net-settled contracts there is no purchaser or producer 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 that the risk of unintended consequences is mitigated. For example, '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 **that the entity will make** from the production facility **or facilities** as referenced in the contract for renewable electricity' (paragraph 6.10.5; text added in bold).

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

26 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 apply only to contracts within the scope of paragraph 6.10.1 of IFRS 9 that qualify for the own use exception.

27 EFRAG suggests that the disclosure requirement of volume by range of periods in paragraph 42T(b)((ii) of the ED be made mandatory. However, EFRAG suggests allowing management to define relevant time ranges instead of prescribing them. Therefore, the disclosure should require an estimate of the volumes to be purchased or sold using the range of periods considered appropriate by the entity.

28 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) are fit for the purposes 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 contracts for renewable electricity, the requested information may be misleading as it is incomplete.

29 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, including a disclosure objective which requires entities to disclose information that enable users to 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.

30 For the purposes of allowing users of financial statements to understand how the contracts in the 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 PPAs 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 for this suggested disclosure.

31 In this regard, EFRAG has received feedback whereby the items of information required in paragraphs 42V of the ED are excessive and burdensome. Some of these items could also be commercially sensitive. In addition, there would be significant differences with the disclosures required for other executory contracts outside the scope of these proposals. Therefore, we suggest that the IASB reconsider the appropriateness of these items of

information. If the IASB keeps these disclosures, we recommend that they better explain why their benefits would exceed their implementation costs.

32 As a technical detail, EFRAG notes that the scope of IFRS 7 will have to be adapted to include the contracts for which paragraphs 42T-42W provide new disclosure requirements.

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

33 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.

34 The comments above, which were included to address question 4, apply to the proposed amendments to IFRS 19, both relating to the scope of the proposed disclosure requirements and the substance of the information to be disclosed.

35 Further, EFRAG considers that the requirements proposed in paragraph 42W of the ED would also be relevant for the subsidiaries without public accountability, 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 that the entity has disclosed. EFRAG suggests clarifying in the Basis for Conclusions that these requirements are already incorporated within the IFRS 19 Standard and that they are not specific to the proposed amendments but also apply in this case.

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

36 EFRAG welcomes the transition requirements approach outlined in the ED.

37 EFRAG suggests allowing entities to reassess 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 the requirements in paragraph 2.5 of IFRS 9 are met.

38 EFRAG suggests modifying the requirement included in paragraph 7.2.52 of the ED to limit the ability of an entity to change the designation of the hedged item designated in a hedging relationship before the date the amendments are first applied, i.e. only in the first year of the application of the proposed amendments.

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

40 In regard to the application of hedge accounting requirements, EFRAG suggest that the IASB consider the possibility of applying said requirements retrospectively, considering that, based on the current proposals in the ED, there may be 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 the ED. An entity which previously would not have designated a hedge relationship but for which 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

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

41 EFRAG's constituents expressed two views on the matter. Some stakeholders noted that the amendments are eagerly awaited and should therefore be applicable as soon as possible, supporting the 1 January 2025 effective date. Other 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 the effective date.

42 To satisfy both views, EFRAG suggests as the effective date the annual period beginning on or after 1 January 2026, with early application being possible.