**EFRAG FR TEG meeting**
**4 June 2024**
**Paper 01-01**
**EFRAG Secretariat: Didrik Thrane-Nielsen, Aleksandra Sivash, Juan Jose Gomez de la Calzada**



## Objective

1 The objective of the session is for EFRAG FR TEG to recommend a draft comment letter (DCL) on the IASB's Exposure Draft *Contracts for Renewable Electricity: Proposed amendments to IFRS 9 and IFRS 7* for approval by EFRAG FRB.

## Timeline and next steps

2 EFRAG's draft comment letter is expected to be published shortly after EFRAG's FRB meeting approving the DCL on 11 June 2024, subject to FRB members comments.

3 The constituents will be asked to submit their comments and answers to the questions raised in the DCL by 15 July 2024, which allows a 30-day comment period for constituents.

4 A joint EFRAG FR TEG and FRB meeting will take place on 29 July 2024 with the objective to approve EFRAG's final comment letter, taking into consideration the feedback received from constituents.

5 Based on the timeline proposed above, EFRAG will be able to comply with the IASB's request to receive the final comments by 7 August 2024.

**Question to EFRAG FR TEG**

6 Does EFRAG FR TEG agree with the drafting of the cover letter of the initial draft comment letter?

7 Does EFRAG FR TEG agree with the drafting of the appendix A and B of the initial draft comment letter?

8 Does EFRAG FR TEG have any additional questions to address to constituents?

## [Draft] Comment Letter

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

**Comments should be submitted by 15 July 2024.**

International Accounting Standards Board

7 Westferry Circus, Canary Wharf

London E14 4HD

United Kingdom

[XX Month 2024]

Dear Mr Barckow,

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

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

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

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

EFRAG conducted multiple outreach events and consulted with its constituents through various EFRAG working groups meetings, discussions with European national standard-setters and other professional bodies and considered comments received on its draft comment letter.

The proposed amendments are introducing the possibility, for a narrowly defined set of contracts, a) to substitute the own-use assessment from some volume of electricity purchased in one electricity contract to at least an equivalent volume of electricity purchased outside that electricity contract and b) to allow the identification of the hedged item by reference to the hedging instrument and designation of a hedging relationship for variable uncertain future volumes of electricity, while at the same time removing a “highly probable” condition for the sellers.

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

However, these proposals represent a significant deviation from the current IFRS 9 requirements.

Therefore, several comments and suggestions are presented within the Appendix A to this letter, motivated by EFRAG’s aspiration to provide the IASB with all relevant information in order to achieve a right balance between the timeliness of the desired amendments and clarity of their proposals.

### Scope

EFRAG supports the narrow scope of the proposed amendments however suggests to further specify that the sources of the production of electricity are limited to wind, sun and water, rather than having these sources listed as non-exhaustive examples.

Further, EFRAG suggests removing the term “renewable” from the proposed amendments, as there is no global consensus on the definition of the term and proposes to further specify the requirements in the proposed amendments in a way that achieves the desired scoping outcome without the use of this term.

The definition of volume risk, as currently defined in the ED, includes features of a purchaser in a contract and may lead to a significant amount of judgement involved when assessing it and to unintended consequences. EFRAG suggests reconsidering the wording for this specific requirement ensuring that the features of a purchaser are not part of the assessment of the scope of the proposed amendments leading to better homogeneity, comparability and enforceability of the application of the proposed amendments.

### Own-use assessment

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

However, EFRAG suggests removing the description on how extrapolation of projections from reasonable and supportable information available at the reporting date may be done. By including this text in paragraph 6.10.3 it might be interpreted that this is not acceptable for assessments done under paragraph 2.4 of IFRS 9.

Further, considering the structure of the electricity market in some countries, EFRAG urges the IASB to reconsider the the use of the wording "within a short period after delivery".

### Hedge accounting requirements

EFRAG welcomes the IASB's thorough approach distinguishing the considerations for sellers and purchasers in contracts in scope of the proposed amendments and not requiring the forecasted volumes of electricity to be highly probable from a seller perspective if the hedging instrument is load-following.

EFRAG recommends that further assessment of the highly probable criterion and potential application to other situations is to be undertaken during the PIR of IFRS 9 – Hedge accounting.

EFRAG notes that by defining a hedged item through the hedging instrument and by further proposing that an entity shall measure the hedged item using the same volume assumptions as those used measuring the hedging instrument, the ED attempts to eliminate potential inefficiency related to a profile mismatch (between the hedged consumption profile of a purchaser and the production profile of a nature-dependent electricity producer).

EFRAG highlights, that considering the functioning of electricity markets where delivery of electricity takes place at very granular time intervals, unless the hedged item is assessed for highly probable criterion and is measured at the same granular time intervals, as the time intervals used by the hedging instrument, there will be potential sources of ineffectiveness related to the volume mismatches even despite the definition of the hedged item through the hedging instrument.

EFRAG would welcome additional clarification and illustrative examples on this point, providing clear practical guidance to the preparers.

### Disclosure requirements

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

The feedback obtained by EFRAG suggests that estimating fair value of contracts within the scope of the proposed amendments might be complex and costly, therefore EFRAG welcomes the possibility to disclose either fair value or other items of information, noting however that this option might distort the comparability of financial statements.

Further, EFRAG questions the usefulness of some items of information proposed to be disclosed in the ED and suggests additional items of information within the detailed analysis included in Appendix A.

Lastly, EFRAG heard from users that the narrow scope of the proposed amendments might result in a lopsided prominence given to contracts within the scope of the ED, compared to any other significant long-term executory contracts or other off-balance sheet commitments, potentially distorting the risk analysis of the users.

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

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

Yours sincerely,

Wolf Klinz

**EFRAG FRB Chairman**

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

*Question 1 – Scope of the proposed amendments*

## Notes to constituents – Summary of proposals in the ED

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

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

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

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

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

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

**Question 1 – Scope of the proposed amendments**

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

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

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

*EFRAG's response*

5 EFRAG generally agrees with the direction of the scope of the proposed amendments. Our understanding of the core standard setting proposals is for a narrowly defined set of contracts (a) allowing to substitute the own-use assessment from some volume of electricity purchased in one electricity purchase contract to at least an equivalent volume of electricity purchased outside that electricity purchase contract and (b) allowing the identification of the hedged item to be conducted by reference to the hedging instrument while at the same time removing a "highly probable" condition for the sellers.

6 While these proposals may create desired outcomes for some contracts, they represent significant deviations from the current regulation. EFRAG is thus of the opinion that the scoping on when to apply these proposals and the extent of the proposals must be very clear and specific.

7 Paragraph 6.10.1(a) of the ED proposals specifies than an entity applies the proposed amendments to contracts for renewable electricity for which its source of production is nature-dependent and indicates that examples of such sources of production include wind, sun and water. EFRAG is not aware of electricity originated from nature-dependent sources other than wind, sun or water for which the volume to be delivered and or the timing of the delivery is defined by such nature-dependent sources. Hence, and in line with the need of specific scope proposals expressed in the above paragraph, EFRAG suggests specifying in the amendments that the source of production of the renewable electricity must be from one or more referenced production facilities where the electricity production is based on energy from wind, sun or water (i.e. not providing a non-exhaustive list of sources).

8 EFRAG questions the need for using the term "renewable electricity" in paragraph 6.10.1 of the ED. Requiring the electricity to be renewable electricity add an unnecessary layer of complexity as electricity generally becomes, or ceases to be, renewable dependent upon whether the electricity is accompanied by certificates or not, something that may change over the life of a contract. EFRAG considers that the specification of contracts meeting the requirements in paragraph 6.10.1 are sufficient and it is not necessary to have special certificates (making the electricity renewable) to conclude whether the contracts are inside or outside of the scope of these amendments. In addition, EFRAG notes that there does not

seem to be a global consensus on the definition of renewable electricity. Therefore, EFRAG suggests that the IASB refer to "electricity" instead of "renewable electricity". This recommendation applies to all the proposed text in section 6.10.

9 The ED outlines in paragraph 6.10.1(a) that "the source of production of the renewable electricity is nature-dependent so that the supply cannot be guaranteed at specified times or for specified volumes." What can or cannot be guaranteed is a matter of interpretation. A defined volume might not be guaranteed for a short, specified time, but could be 'guaranteed' for a longer specified time (i.e. it is uncertain whether a 1MW solar plant produces 10 MWh of electricity in a single day, but it is 'guaranteed' that it will produce that amount in a year). To avoid the discussion of what can or cannot be guaranteed EFRAG suggests using an alternative wording.

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

11 EFRAG foresee some challenges using the volume risk criterion as it is linked to the purchaser of the contract, thus not clearly observable for the seller in the contract and might be subject to change if the contract is transferred during the time when it is outstanding. The used definition of volume risk is only relevant for the purchaser and is only relevant if the purchaser has only one electricity contract per site (or delivery location).

12 To avoid the problems described in the previous paragraph, EFRAG suggest replacing the wording in paragraph 6.10.1(b) with 'the volume of electricity to be delivered and or the timing of the delivery under the contract is defined by the nature-dependent access to energy from wind, sun or water that is the source of production of the contracted electricity and does not include features of the purchaser'.

13 With the proposed changes, the substance of the scope requirements in the ED is kept unchanged, but only relates to facts that can be derived from the content of the electricity contract and thus can be enforced without applying subjective assessments.

14 Moreover, EFRAG acknowledges that there is a wide range of contracts that expose the purchaser to varying degrees of volume risk. Hence, we suggest removing the references to 'substantially all the volume risk' and 'pay as produced features'.

15 EFRAG is aware of the urgency of the project. In this regard, EFRAG is proposing some alternative wording in Appendix B to this comment letter that would address the previous comments included in paragraphs 6 to **Error! Reference source not found.**. The purpose of the wording included in Appendix B is to provide the IASB an indication of how these comments could be addressed. However other alternatives may be more convenient.

16 EFRAG also notes that the requirements in the proposed paragraphs 6.10.3 - 6.10.6 represent amendments to the existing own-use exception and hedging regulation rather than additional exceptions of existing regulation in IFRS 9. EFRAG thus recommends that the word “exceptions” in the proposed paragraph 6.10.2 is replaced by “amendments”.

17 Lastly, EFRAG notes that the proposed paragraphs 6.10.1 - 6.10.3 are paragraphs relating to the scope of IFRS 9 and should be expected to be found in Chapter 2 of IFRS 9.

**Questions to Constituents**

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

***Question 2 – Proposed ‘own-use’ requirements***

**Notes to constituents – Summary of proposals in the ED**

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

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

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

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

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

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

**Question 2 – Proposed 'own-use' requirements**

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

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

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

*EFRAG's response*

20 EFRAG understands that the intention of the ED is to ease the own-use assessment for a defined subset of contracts. While EFRAG generally agrees with the direction of the proposals, there are a few aspects that in our view should be considered by the IASB.

21 The ED requires in paragraph 6.10.3(a) that an entity should consider reasonable and supportable information available at the reporting date for a period no shorter than 12 months (or an entity's normal operating cycle) when considering the consistency between the volumes expected to be delivered and the entity's needs of electricity. Beyond 12 months an entity is permitted to make extrapolations based on short-term estimates. EFRAG is of the view that this intended relief could cause unintended consequences.

22 When assessing whether a contract to buy or sell a non-financial item is for own-use purposes in accordance with paragraph 2.4 of IFRS 9, an entity makes its decision based on reasonable and supportable information at the date of assessment. In some instances, reasonable and supportable information only comes from an entity's budget which in many situations cover 12 months. Therefore, the presumed relief highlighted in the previous paragraph could raise the bar for other own-use assessments that entities perform as it could imply that reasonable and supportable information should be available for periods

beyond 12 months (or a defined time period). Consequently, EFRAG recommends removing this aspect of the proposals.

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

24 Furthermore, EFRAG questions the need of including the second criterion (i.e. the design and operation of the market prevents the entity from determining the timing or price of the sale). EFRAG is of the view that the first and third criteria [For constituents: [see paragraph 1919(b) above] would already prevent trading transaction from qualifying for own-use purposes. In addition, the first criterion implicitly prevents an entity from determining the timing and price of the sale.

25 The ED specifies in paragraph 6.10.3 (b)(iii) that one of the criteria for a sale to be consistent with an entity's usage requirements is that the entity expects to purchase at least an equivalent volume of electricity within a reasonable time. It also provides one month as an example of what might be a reasonable time. EFRAG recommends providing a bright-line rather than an example of what is a reasonable time as it would provide certainty for enforcement and would avoid abuse. EFRAG does not disagree with the 30-day period, but acknowledges that the bright-line could go beyond 30 days as for some industries this may not be enough.

26 In addition, in relation to paragraph 6.10.3(b)(iii), since entities may have several PPAs, and we do not expect that purchases under one of these other PPAs constitute a purchase as described in the aforementioned paragraph, the IASB could clarify that these are conducted or uncommitted 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.

27 Similarly to question 1 above, EFRAG is proposing some alternative wording in Appendix B to this comment letter that would address the previous comments included in paragraphs 21 to 26 above.

**Questions to Constituents**

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

***Question 3 – Proposed hedge accounting requirements***

**Notes to constituents – Summary of proposals in the ED**

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

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

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

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

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

**Question 3 – Proposed hedge accounting requirements**

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

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

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

*EFRAG's response*

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

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

34 EFRAG welcomes the IASB's thorough approach distinguishing the considerations for sellers and purchasers in contracts in scope of the proposed amendments and not requiring the forecasted sales to be highly probable if the hedging instrument is load-following from a seller perspective.

35 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.

36 Further, EFRAG notes that the proposed amendments reverse the sequence of the hedge accounting logic outlined in chapter 6, which is that an entity identifies an exposure (further designated as hedged item), an entity risk manages this exposure through identified hedging instrument and then designates a hedging relationship. Thus, the hedged item exists, and the hedging instruments is identified and adapted to the hedged item.

37 In paragraph 6.10.4(a) of the ED, the hedged item becomes defined by the hedging instrument: "the hedged item is specified as the variable volume of electricity to which the hedging instrument relates".

38 EFRAG's understanding is that, by defining the hedged item through the hedging instrument, the proposed amendment aims to ensure that the consumption profile and the

production profile are fully aligned in the designated hedging relationship and that there is no potential inefficiency arising from profile mismatch when assessing the economic relationship. However, the profile itself must be highly probable from the purchaser's perspective at any given time.

39 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, 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.

40 As noted in the IFRIC's June 2023 paper, the delivery of the electricity (spot trading) 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 preparers who are purchasers in the virtual power purchase agreements (v)PPA.

41 EFRAG deems it important to highlight that unless the hedged item is assessed for highly probable criterion and is measured at the same time intervals as the hedging instrument, there will be potential sources of ineffectiveness related to the volume mismatches even despite the definition of the hedged item through hedging instrument as outlined in paragraph 6.10.4(a) of the ED. EFRAG note that, when the hedged item is defined by the hedging instrument, and the volume in the hedging instrument is load following and thus uncertain, then if the profile of the hedged item was allowed to deviate from the profile of the hedging instrument, it would not be possible to identify if a transaction is or is not part of the hedged item when it occurs.

42 EFRAG would welcome additional clarification and illustrative examples on this point providing clear guidance to the preparers.

43 EFRAG suggests clarifying in paragraph 6.10.4(b) of the ED that the variable volume of forecast electricity transactions designated in the hedging relationship do not exceed the volume of future electricity transactions <u>net of volumes in purchase or sales contracts assessed to be for the receipt or delivery of electricity in accordance with the entity's expected purchase, sale or usage requirements</u> that are highly probable, except if paragraph 6.10.5 applies.

**Questions to Constituents**

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

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

### *Question 4 – Proposed disclosure requirements*

### Notes to constituents – Summary of proposals in the ED

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

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

(b) *for contracts that are not measured at fair value, <u>either the fair value of the contracts at the reporting date</u> together with the information required by paragraphs 93(g)–(h) of IFRS 13 <u>or the volume of electricity expected to be sold or purchased over the remainder of the contract</u>. An entity is permitted to use some specified time bands - not later than one year; later than one year and not later than five years; and later than five years. An entity shall disclose the methods and assumptions used in preparing the information together with any changes and the reasons for such changes.*

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

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

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

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

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

**Question 4 – Proposed disclosure requirements**

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

(a) the entity's financial performance; and

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

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

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

*EFRAG's response*

49 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 IFRS 9)", regardless of whether the contracts would otherwise be within the scope of IFRS 9. This requirement would bring an additional burden to the entities that are party to contracts for electricity but that account for those contracts at fair value through profit or loss (i.e. contracts that are not for own-use purposes). EFRAG suggests that the disclosure requirements proposed in the ED should apply only to contracts within the scope of paragraph 6.10.1 of IFRS 9 that qualify for own-use exception.

50 EFRAG has gotten feedback that estimating the fair value of power purchase agreements is generally complex and costly. Hence, EFRAG welcomes the possibility to disclose either the fair value of the contracts or other items of information, noting however that this option might distort the comparability of the financial statements.

51 EFRAG suggests that the disclosure requirement in paragraph 42T of the ED to be mandatory as it relates to the disclosure of volume by range of periods (replacing "an entity is permitted" by "an entity is required"). However, EFRAG suggests allowing management to define relevant time ranges instead of imposing those.

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

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

54 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 unused volumes sold back on the market at spot price (in case of physical PPA).

55 Lastly, EFRAG heard from users that the narrow scope of the proposed amendments would result in a lopsided prominence given to contracts within the scope of paragraph 6.10.1 compared to any other significant long-term executory contracts or other off-balance sheet commitments an entity might have. This situation may lead users to believe that, since only the information related to (v)PPAs is disclosed, entity's risks reside only within these agreements.

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

**Question to Constituents**

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

### *Question 5 – Proposed disclosure requirements for subsidiaries without public accountability*

### Notes to constituents – Summary of proposals in the ED

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

**Question 5 – Proposed disclosure requirements for subsidiaries without public accountability**

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

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

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

*EFRAG's response*

59 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.

60 Further, EFRAG considers that the requirements proposed within the paragraph 42W of the ED would also be relevant for the subsidiaries without public accountability and specifically the fact that the entity shall consider how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information the entity has disclosed. EFRAG suggests to clarify, within the Basis for Conclusions, that these requirements are already incorporated within IFRS 19 Standard and are not specific to the proposed amendments, but however also apply in this case.

**Question to Constituents**

61 Question 5.1: Do constituents agree with the preliminary position of EFRAG? If no, please explain.

*Question 6 – Transition requirements*

## Notes to constituents – Summary of proposals in the ED

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

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

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

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

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

**Question 6 – Transition requirements**

The IASB proposes to require an entity to apply:

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

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

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

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

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

*EFRAG's response*

67 EFRAG welcomes the approach outlined in the ED.

68 EFRAG suggests allowing entities an option to apply paragraph 6.10.3 retrospectively (replacing "shall" by "may"). Previously the entity may at inception of the contract have concluded that the contract will fail the own-use exception and thus not considered the fair value option in paragraph 2.5 of IFRS 9. By making the retrospective application an option, such entities are not deprived of their current fair value through profit or loss accounting.

69 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.

### *Question 7 – Effective date*

#### Notes to constituents – Summary of proposals in the ED

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

**Question 7 – Effective date**

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

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

*EFRAG's response*

71 EFRAG takes into consideration the endorsement process in the EU and the fact that some EU entities are also foreign public issuers subject to the IFRS requirements in other jurisdictions (not IFRS as endorsed by the EU), EFRAG suggests setting the effective date to the periods beginning on or after 1 January 2026 with early application possible.

## Appendix B - EFRAG's proposal for alternative wordings to the text in the ED with explanations

### Proposed paragraph 6.10.1

72 EFRAG recommends a very clear scope description that allows for consistent assessment of which contracts are or are not in the scope of the amendments. Keeping the understood intended scope of the amendments, EFRAG proposes that paragraph 6.10.1 is written as follows:

*73 An entity shall apply the requirements in paragraph 6.10.3-6.10.6 to a contract for electricity with all of the following characteristics:*

(a) *the source of production of the contracted electricity is from one or more referenced production facilities where the electricity production is based on energy from wind, sun or water;*

(b) *the contract contains uncertainty as to the total volume of electricity to be delivered and or the timing of the delivery;*

(c) *the volume of electricity to be delivered and or the timing of the delivery under the contract is defined by the nature-dependent access to energy from wind, sun or water that is the source of production of the contracted electricity and does not include features of the purchaser; and*

(d) *the contract requires either:*

(i) *physical delivery of electricity and is net settled according to paragraph 2.6; or*

(ii) *net settlement of the difference between the prevailing market price and the contractually agreed price for the agreed volume of electricity produced from the referenced production facilities.*

74 We note the following advantages with the proposed rewrite of the proposed paragraph 6.10.1:

(a) Unnecessary introductory text is eliminated.

(b) The term “renewable electricity” which may be subject to interpretation is not used. This also allow for not using the term renewable electricity throughout the amendments.

(c) The notion of what can be guaranteed, which may be subject to interpretation, is not used.

(d) Examples which may be subject to interpretation is replaced by a list which is not subject to interpretation.

(e) The “supply cannot be guaranteed” has been substituted with “the contract contains uncertainty as to the total volume of electricity to be delivered and or the timing of the delivery” which is a factual assessment of the content of the contract. Thus, uncertainty in scope is removed.

(f) The “source of production of the renewable electricity is nature-dependent so that supply cannot be guaranteed at specified times or for specified volumes” has been substituted with “the volume of electricity to be delivered and or the timing of the delivery under the contract is defined by the nature-dependent access to energy from wind, sun or water that is the source of production of the contracted electricity and does not include features of the purchaser” clarify the source of the volume and or timing uncertainty to the sourcing and eliminate any adjustments to the situation (volume needs) of the purchaser. Uncertainty in scope is removed.

(g) The “that contract exposes the purchaser to substantially all the volume risk under the contract through ‘pay-as-produced’ features” and “Volume risk is the risk that the volume of electricity produced does not align with the purchaser’s demand for electricity at the time of production” has been removed. This has the following advantages:

    (i) The definition of volume risk is removed and replaced with the objective properties of the contract described in the proposed (a), (b) and (c) of paragraph 6.10.1.

    (ii) It removes the “substantially all” assessment which is subject to interpretation.

    (iii) Not using the proposed definition of volume risk, which would cover all contracts for electricity that are not load following to the purchaser, reduces or removes the tension between the subletters in paragraph 6.10.1.

    (iv) The scope of the amendment can now be defined solely by understanding the contracts and does not need the knowledge of the situation of the purchaser which might be difficult to assess for the seller in the contract.

(h) The subletter (d) does not affect the scope but allows for later separate identification of physical and financial electricity contracts. The reference to paragraph 2.6 for contracts for physical delivery is important for the subsequent understanding of the text in paragraph 6.10.2 and 6.10.3.

### Proposed paragraph 6.10.3

75 EFRAG recommends that the text in the proposed paragraph 6.10.3 becomes more focused on the core standard setting proposal and proposes that paragraph 6.10.3 is written as follows:

*76 For the purpose of applying the own-use exception in paragraph 2.4 to contracts that have the characteristics in paragraph 6.10.1 including subparagraph 6.10.1(d)(i), an entity being the purchaser of the electricity shall consider at inception of the contract and at each subsequent reporting date 1) the purpose, design and structure of the contract including the volumes of electricity expected to be delivered over the remaining duration of the contract and 2) the reasons for past and expected sales of electricity delivered or expected to be delivered under the contract and whether such sales are in accordance with the entity's expected purchase or usage requirements. A sale of unused electricity is in accordance with the entity's expected purchase or usage requirements only if all the following criteria are met:*

(a) *the sale arose or arises from the entity's exposure to the volume mismatch between the electricity delivered or being expected to be delivered and the entity's electricity demand or expected demand at the time of delivery or expected delivery; and*

(b) *the entity has purchased or expects to purchase in one or more forward- or spot transactions at least the same volume of electricity for delivery within 30 days after the actual or expected sale. Any forward transaction entered into or forward- or spot transaction expected to be entered into was for the entire duration of the contract, is or will be in accordance with the entity's expected purchase or usage requirements.*

77 For this text to work EFRAG suggest amending paragraph 2.4 of IFRS 9 by inserting the words "(sometimes referred to as the 'own-use exception')" at the end of the first sentence.

78 We note the following advantages with the proposed rewrite of the proposed paragraph 6.10.3:

(a) By changing "For the purpose of applying the requirements in paragraph 2.4" to "For the purpose of applying the own-use exception in paragraph 2.4" the interaction between paragraph 6.10.3 and paragraph 2.4 becomes clearer.

(b) By changing “to contracts to buy and take delivery of renewable electricity that have the characteristics in paragraph 6.10.1, an entity shall consider” to “to contracts that have the characteristics in paragraph 6.10.1 including subparagraph 6.10.1(d)(i), an entity being the purchaser of the electricity shall consider” it becomes clearer that:

   (i) Paragraph 6.10.3 only applies to the entity being the purchaser of electricity.

   (ii) Paragraph 6.10.3 only applies to contract for physical delivery of electricity, and which is net settled according to paragraph 2.6.

(c) By deleting most of the text in (a) one avoids introducing significant text that may imply conditions for the assessment in paragraph 2.4 that is not clear from the text in paragraph 2.4. It is the understanding of EFRAG that the purpose with the amendment is to bring amendments to ease the own-use assessment for certain contracts, not to indirectly impute further requirements to other contracts.

(d) By changing “the reasons for past and expected sales of unused renewable electricity within a short period after delivery and whether such sales are in accordance with the entity’s expected purchase or usage requirements” to “the reasons for past and expected sales of electricity delivered or expected to be delivered under the contract and whether such sales are in accordance with the entity’s expected purchase or usage requirements” one avoids a focus on sales in the balancing market that is triggered by focusing on sales within a short period **after** delivery. Entities are generally expected to be in balance when entering into the period of delivery/consumption. Thus, assessments of own-use are generally focusing on actual and expected sales in the forward or spot market rather than actual or expected sales in the balancing market. Entities responsible for their own balancing generally cannot avoid a large number of sales (and purchases) in the balancing market.

(e) By changing “the sale arises from the entity’s exposure to the volume risk, giving rise to mismatches between the renewable electricity delivered and the entity’s electricity demand at the time of delivery” to “the sale arose or arises from the entity’s exposure to the volume mismatch between the electricity delivered or being expected to be delivered and the entity’s electricity demand or expected demand at the time of delivery or expected delivery” one achieve symmetry between past and expected sales and a focus on the volume in the contract being assessed and the expected volume of consumption without including the assessment of risks.

(f) By deleting “the design and operation of the market in which the electricity is sold results in the entity not having the practical ability to determine the timing or price of the sale” one remove a criterion that is not relevant as the own-use assessment is on volume and not price of the product. That trading is not a factor driving acceptable sales is secured by the wording in (a).

(g) By changing “the entity expects to purchase” to “the entity <u>has purchased or</u> expects to purchase” one allows for both the forward- and backward-looking assessment that lies in the looking at reasons for past and expected sales.

(h) By changing “at least an equivalent volume of electricity“ to “at least the same volume of electricity” one takes away an uncertainty about what is meant by equivalent volume, and one makes clearer the distinction between an own-use assessment and a hedging assessment (for which the use of an equivalent volume would have been correct).

(i) By including “in one or more forward- or spot transactions” one directs the focus towards sales occurring before the period of delivery rather than sales occurring in the balancing market.

(j) By changing “an equivalent volume of electricity within a reasonable time (for example, one month) after the sale” to “an equivalent volume of electricity for delivery within 30 days after the actual or expected sale” one achieves:

   (i) A certainty that the delivery of the purchased volume happens in the relevant period (otherwise this would be an open door for abuse as purchases cold be made for delivery in 20 years from time of entering into the purchase contract.

   (ii) An increased clarity as the flexibility provided by the one month example becomes an undisputable time. This principle is more important than the time being 30 days.

   (iii) A symmetry between actual and expected sales.

(k) By adding “Any forward transaction entered into or forward- or spot transaction expected to be entered into was for the entire duration of the contract, is or will be in accordance with the entity’s expected purchase or usage requirements” one avoid that a purchase saving an own-use assessment is in itself not for own-use and it creates symmetry between past and future transactions.

(l) The proposed text represents a reduction in total text.