ISDA® | Safe, Efficient Markets

The Trustees
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

17th July 2024

Dear Trustees of the IFRS Foundation,

Ref.: Invitation to comment – Exposure Draft on Contracts for Renewable Electricity, Proposed amendments to IFRS 9 and IFRS 7

The International Swaps and Derivatives Association ('ISDA')[1] welcomes the opportunity to provide input on the above referenced Exposure Draft ('ED') issued by the International Accounting Standards Board ('IASB') on 8 May 2024.

We support the work of the IASB on this topic and note the following overall points:

- We recognise the speed with which the IASB has tackled this topic and developed potential solutions. We believe that what is proposed will address the problems being experienced, which are urgent and cannot otherwise be resolved.
- The decision to focus on narrowly scoped amendments is efficient for dealing with this issue. However, our members consider that there are other instances in addition to contracts for renewable electricity where hedge accounting with a variable notional should be permitted, such as balance guaranteed swaps. This matter should not be addressed as part of this project, which should remain narrow in scope, but the IASB should consider it as part of the post implementation review of IFRS 9 hedge accounting, which is expected to commence later in 2024.
- The proposals introduce various new terms that are not used elsewhere in IFRS. The meaning of any new terms should be clear and we suggest some of them may require further explanation.
- The proposed disclosures appear to be excessive and introduce extensive new requirements for contracts which are not otherwise in the scope of the amendments. We suggest the disclosures should only relate to those instruments for which their

[1] Since 1985, the International Swaps and Derivatives Association has worked to make the global derivatives markets safer and more efficient. ISDA's pioneering work in developing the ISDA Master Agreement and a wide range of related documentation materials, and in ensuring the enforceability of their netting and collateral provisions, has helped to significantly reduce credit and legal risk. The Association has been a leader in promoting sound risk management practices and processes and engages constructively with policymakers and legislators around the world to advance the understanding and treatment of derivatives as a risk management tool. Today, ISDA has over 850 member institutions from 67 countries. These members comprise of a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. ISDA's work in three key areas – reducing counterparty credit risk, increasing transparency, and improving the industry's operational infrastructure – show the strong commitment of the Association toward its primary goals; to build robust, stable financial markets and a strong financial regulatory framework. Information about ISDA and its activities is available on the Association's web site: www.isda.org.

accounting is affected by the amendments. In other cases, the existing IFRS disclosures will be sufficient.

- We would encourage early adoption to be permitted and, assuming it is, then we consider that an effective date of 1 January 2026 would be a more reasonable alternative than 1 January 2025 and should have no adverse effect.

We discuss each of the points above in the appendix to this letter, along with detailed responses to each of the questions raised in the ED.

We look forward to supporting the IASB as its work progresses in this area. If it would be helpful, we would be happy to discuss in further detail the points we raise.

Should you have any questions or would like clarification on any of the matters raised in this letter please do not hesitate to contact the undersigned.

Yours sincerely,

Fiona Thomson
Managing Director
Goldman Sachs International
ISDA European Accounting WG Chair

Antonio Corbi
Senior Director
Risk and Capital
ISDA

Appendix attached.

Appendix:

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?

We support the scope of the amendments which will address what is currently a significant problem. Whilst over time, the problem may recede, for example if battery technology develops and/or the energy market evolves, we acknowledge that it is a current issue for which a solution is needed.

We suggest there could be a clearer articulation of why some types of contracts to generate electricity from renewable sources are excluded from the scope of the amendments, such as hydroelectricity and biomass energy. The reasoning is presumably that it is possible to more easily control the generation of electricity from such sources (e.g., to start and stop the water flowing into a hydroelectricity plant or start and stop burning biofuel) than it is to start and stop solar or wind from generating electricity. To address this point, it may be helpful to include some of the discussion from the IASB March 2024 meeting, Staff paper 3A, para 23 LINK: which noted that with respect to input and feedback received:

"(a) although the production of biomass energy is nature dependent (for example because the energy comes from trees), it is not the case that the production of the energy cannot be guaranteed at particular times or for particular volumes. Biomass is the item to fuel the power station, but for example the sun's effect on the biomass does not have the same cause-and-effect on the energy production as when the sun shines to generate energy at a solar farm. Therefore, contracts for biomass energy would fail the characteristic in paragraph 16(a).

(b) some contracts for hydro energy do not transfer volume risk to the purchaser because it is possible for the generator to control production by, for example, opening or closing the dam or using other (less expensive) sources of energy to pump water through the generation assets. Therefore, these types of contracts for hydro energy would fail the characteristic in paragraph (b)."

Paragraph 6.10.1(a) states that "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." Our members have a question regarding how this requirement should be understood and they request that the requirement is made clear. One suggestion is that it is clarified whether the scope limitations relate to both the nature of the source, and the inability of the supplier to manage the volume and timing of electricity supplied. If it is the IASB's expectation that both elements must be present to qualify, it may be helpful to change 'so that' to 'and', i.e.

> "The source of production of the renewable electricity is nature-dependent ~~so that~~ and supply cannot be guaranteed at specified times or for specified volumes."

Alternatively, it may be the IASB's intention that the contracts will only qualify for the exemption if the supply of electricity under the contract cannot be guaranteed at a specific time or for specific volumes due to the nature dependency which impacts supply. If this is the case, it would be helpful to provide a definition for the meaning of 'nature-dependent', to make it clear that it is why solar power qualifies but biomass does not. This would also help to address the point raised at the start of our response to this question.

It should also be clarified what is meant by "supply cannot be guaranteed at specified times or for specified volumes." As currently proposed, we are unclear whether this means that if a supplier can manage the volumes and timing of electricity supplied to the purchaser, for example by turning off the water supply to a hydro electricity generation plant or by turning off the supply of fuel into an electricity generator that burns biomass, then the contract would not qualify for the own-use exemption. Another consideration is that if battery technology evolves with the result that suppliers who rely on solar or wind which cannot be turned off, are able to store the electricity produced that is surplus to their customers' requirements and release it when their customers need it, does this mean that these contracts would then fall out of scope of the amendments? Once such storage solutions become economically viable, entities holding pay-as-produced type contracts could reasonably be expected to renegotiate their contracts with the supplier so that they only take delivery of the electricity they need, resulting in a contract that qualifies for own use under existing IFRS 9. It should therefore be ensured that the amendments are future proof in this respect as technological developments are to be expected and should not result in the entity's accounting for such contracts being unreasonably disrupted.

Paragraph 6.10.1(b) states:

> "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."

It could be useful if examples were provided based on contracts seen in practice where the scoping is analysed:

- The term 'pay-as-produced' is not defined in the main body of the amendments and may not be well understood. A definition of the term could use the explanation provided in BC7(c). It should also be clarified whether the definition covers when the amount of power the entity is committed to purchase is i) a fixed volume of the producer's production capacity (i.e., a volume cap as described above) and / or, ii) a fixed share (e.g., 75% of production).

- We are unclear how the reference to 'pay-as-produced' would apply if the purchase contract is subject to a volume cap once a certain amount of energy has been supplied. One approach would be to exclude such contracts as it does not relate to all the energy produced. Alternatively, since volume risk is transferred (albeit not fully) it should be in the scope of the amendments.

- How is 'demand' intended to be understood? Is this comparing the usage demand at the point of delivery (i.e., now) or what an entity can use now, and feasibly store for future use? Or is 'demand' any electricity that they take and don't sell? For simplicity, one suggestion would be to define 'demand' as any electricity that the entity uses and does not sell, which would be an approach consistent with other commodities that can be stored.

- Is it the intention of the amendments to highlight the difference between what risks the contract exposes a purchaser to (e.g., volume risk), versus what risks the entity has (or does not have) the ability to manage, and for the reliefs to apply accordingly? If so, would the boundary for when the relief applies be those risks that are beyond the feasible, or economical, ability of the entity to manage?

- As mentioned above, it is important to ensure that the amendment is future proof as storage capabilities improve. For example, what would be the implication if an entity could feasibly store electricity, but chose not to? Would there be a test for feasibility, e.g., if it is commercially viable? What would be the effect of technological change on the accounting applied for existing contracts? We suggest that if an entity chooses to net settle rather than store (if storage is feasible), they should not be permitted to apply own use.

- With regards to 'substantially all' of the volume risk there is ambiguity as to whether this is all the volume of the generation facility, or only the portion contracted for under the contract for renewable electricity.

Considering how these transactions are structured in practice, it may also be helpful to update the wording as follows: "Other contracts require net settlement of the difference between the prevailing market price and the contractually agreed price for the volume of electricity produced from a referenced production facility, *or a capped volume based on a production forecast."*

BC12 does not mention IAS 39: Financial Instrument: Recognition and Measurement. Given the hedging requirements contained in this standard and the use of IFRS for SMEs (which permits use of IAS 39), it is suggested to include here.

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?

In paragraph 6.10.3(a) with regards to the reference to 'expected to be delivered', it would be helpful if this can be further clarified. It would be good to clarify if this is P50 volumes (i.e., 50% minimum probability), or if this is something stricter. Our members are of the view that P50 is sufficiently strict and is conceptually well understood. They would have concerns if P75 or P90 were required as this could unduly suppress the number of contracts that would qualify to use the relief.

Paragraph 6.10.3(a) states, "In assessing how the volumes expected to be delivered under the contract continue to be in accordance with the entity's expected purchase or usage requirements, the entity is not required to make a detailed estimate for periods that are far in the future—for such periods an entity may extrapolate projections from reasonable and supportable information available at the reporting date. However, an entity shall consider reasonable and supportable information available at the reporting date about expected changes in the entity's purchase or usage requirements for a period not shorter than 12 months after

the reporting date". Our members are of the view that the meaning and intention of this section could helpfully be clarified, in particular:

- Our members are not clear why there needs to be a minimum length of time for which reasonable and supportable information should be considered. If this could be clarified it may be helpful to entities when making the assessment.
- Paragraph BC 20 states, "However, an entity shall not ignore reasonable and supportable information at the reporting date about changes in the entity's purchases or usage requirements over a period not shorter than 12 months after the reporting date". We consider that if there is reasonable and supportable information that is available, it should not be ignored and its use should not be limited to a minimum 12 month period, as in some instances a shorter assessment period may be appropriate. There are various possibilities why this could be the case, including if an entity's operations run to a 12 month cycle and do not consider longer time horizons, or if the electricity supply contract's remaining period is less than 12 months.
- The wording is not clear as to whether after 12 months an entity can or should leave the assessment of expected future volumes, and it is suggested that the wording should be clarified so that it does not advocate that it is acceptable to do nothing in terms of the assessment after 12 months.
- One possible approach to consider in helping to explain this requirement may be to include a rebuttable presumption that the review term should match the length of the PPA contract.

Paragraph 6.10.3 (b) (iii) states that: "The entity expects to purchase at least an equivalent volume of electricity within a reasonable time (for example, one month) after the sale". Our members consider that the meaning and intention of this section could helpfully be clarified, in particular:

- Whether the expected purchase being referred to can be in addition to what has been contracted for under an existing contract which is the same or equivalent. This is because if an entity can roll cumulative excess sales from one assessment period to the next, they will only cease to qualify as own use at the end of the contract. If this point is not clarified, an entity could potentially justify excess sales in a period by looking to upcoming purchases under the same or similar contracts to argue that it is still a net purchaser.
- It is unclear how an entity would determine what a reasonable period is. It would be helpful if it could be clarified whether the principle is that due to nature dependent sources, there may be excess at different points in time, but overall the entity is a net purchaser. Our members think that in some instances a year could be acceptable to cater for differences in supply due to seasonality associated with the purchaser's normal business processes and / or the characteristics of the source of the natural power supply. In such a case, if there were excess sales of solar sourced electricity in summer, but there are purchases outside the contract in winter due to increased demand, but over the year the entity is a net purchaser, our members are of the view that this should be acceptable. BC 20 (c) states that "'Reasonable' depends on an entity's operations.", however this does not provide useful guidance, and it is not clear what types of elements of an entity's operations should be considered in this regard.

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?

Paragraphs 6.10.4 and 6.10.5 use the term 'highly probable'. It is unclear what highly probable means in this context, with respect to what level of confidence the assessment is applied, and how this is determined over a longer time horizon. The term is usually translated into a likelihood of 90% or more and is well understood from application in hedge accounting elsewhere. Our members presume that a similar threshold is envisaged here (and we see no reason why it should be different) but it would be helpful if this were clarified in the final amendments.

It is noted that BC35 mentions that "for forecast electricity transactions to be eligible for designation as the hedged item, the forecast transactions must be highly probable". However, there is no discussion in the ED as to changes in 'highly probable' for purchasers. This is similar to the point raised above, whereby paragraph 6.10.3 (a) requires consideration of whether purchases are in accordance with expected usage.

Paragraph 6.10.5 states that "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 from the production facility as referenced in the contract for renewable electricity." This raises a number of areas which members consider would potentially benefit from further clarification:

- What is meant by "proportion" and how this is intended to be assessed. For example, if the contracts entered into are pay-as-produced contracts, we suggest that the hedging would be for 100% of the seller's output or any other pro-rata amount, e.g., 50% or 70%.
- It is not clear whether this assessment relates to "total *expected* future sales". If it is, then the word 'expected' should be added.
- It would be useful to understand why "such forecasted sales are not required to be highly probable" as these sales could be supported by a realistic plan to construct an asset and produce and sell a particular volume of renewable electricity. Since there are many facilities to generate renewable electricity that are under construction, it would be beneficial if the final guidance recognises that they present different challenges when assessing "highly probable" compared to completed facilities.
- Our members recognise that the judgement involved in making this assessment, which might be referred to as the 'capacity test', is an area which is fundamental to the application of the approach. We observe that IFRS allows for additional disclosure to be made of material judgements and estimates.

With respect to the capacity test, we suggest that language should be added to the final amendments to provide additional clarification as follows:

- Expected purchases under PPA contracts designated in hedging relationships should be assessed based on a best estimate (presumably P50 consistent with the discussion above).
- The entity's total expected usage should also be assessed on a best estimate basis.
- If an entity is expected to be over-hedged in an individual purchasing window but capacity is forecast to catch up over a reasonably short period of time, the entity can continue hedge accounting.

Our members strongly support the approach being proposed in the ED for renewable energy contracts as a sensible solution that results in more useful financial reporting. We consider that a similar concession would be useful and appropriate for other transactions that demonstrate similar characteristics where the purchaser is otherwise exposed to what might be understood as volume related risk and where the hedges entered into fully mitigate this risk regardless of how the volume changes. This could apply to hedging relationships such as those entered into with load following swaps or mortgages hedged with a balanced guarantee swap. We recognise that exploring this point and potentially expanding the relief to other types of contracts is beyond the narrow scope of this project. We therefore suggest that once the proposal has been finalised and approved, this specific point should be added to the Post Implementation review for IFRS 9 Hedge Accounting, which is due to commence later in 2024.

Paragraph BC 27 states "…the volumes expected to be produced (applying probability-weighted scenario analysis)". Our members consider that it is unclear if this is what is meant throughout the document as to how expected volumes are calculated. This should be made clear.

Our members consider that paragraph BC 37 (b) should be clarified as it outlines that volume differences could give rise to ineffectiveness, but in the introductory paragraph it states that due to the amendments volume risk shouldn't exist. We understand that the IASB's intention may be to permit small volume differences that give rise to some (but not excessive) ineffectiveness, provided they are subsequently recovered, but as currently drafted, the wording is potentially confusing.

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?

The proposed disclosures are for all contracts that meet the scoping characteristics, whether or not the own-use or hedging amendments are applied. Paragraph 42T(a) requires disclosure of the terms and conditions of the contracts. This would be applicable to energy traders (who already measure at FVPL) with thousands of contracts. Our members question why these

disclosures would be relevant in this case, when the entities are not applying any of the approaches described in the amendments.

For paragraph 42T, with respect to the contracts within the scope of the disclosure, our members consider that it is appropriate for contracts accounted for as own use but not for it to apply as the default treatment for all other contracts too. This is because contracts at fair value can be transacted for other reasons, such as trading purposes, for which the additional disclosure would not necessarily provide useful information. There could be further instances where contracts are significant to the entity or have strategic importance, in which case they would also be disclosed. This could include contracts that are net settled at the market price, where disclosing the fair value may provide useful information of the risks an entity faces. This would include instances when PPAs deliver more power than the entity needs, which may correspond to when power prices move down, resulting in a loss for the entity.

Identifying whether the contracts (either individually or in aggregate) are material to the entity is an overarching consideration in deciding whether they should be disclosed. Whilst this is a requirement for all disclosures, it would be helpful to note this in the Basis for Conclusions to the final amendments. It would also be helpful for entities to be reminded to assess whether a provision should be recognised under IAS 37 where it is probable that the contract will give rise to a loss.

Our members consider that the disclosure amendments should be limited to those contracts to which paragraphs 6.10.3, 6.10.4 or 6.10.6 apply. We do not think that just because power purchase arrangements are often long dated contracts, that the inherent risks automatically require all contracts to be subject to additional mandatory disclosure.

Our members note the requirements of paragraph 42W, which could be unduly placing more onerous requirements on these types of contracts than what would be required for other FVPL commodity contracts. If there are particular risks and judgements, then IAS 1 and IFRS 13 would already require the appropriate disclosures. It is unclear why increased emphasis is being placed on these contracts, particularly if the trader regularly trades in and out of positions and doesn't hold the contract for the full contract duration.

Paragraph 42T (b) (ii) states that an entity shall disclose “The volume of renewable electricity a seller under the contracts expects to sell or a purchaser under the contracts expects to purchase over the remaining duration of the contracts.” With reference to the word ‘expects’, it is uncertain to which level of confidence this relates. If it is meant to mean ‘probable’, which is normally understood to be a probability greater than fifty percent, this should be stated.

Paragraph 42U states, “Specifically, an entity shall disclose the proportion of renewable electricity covered by the contracts to the total electricity sold for the reporting period.” Given the objective stated at the start of the paragraph (and per paragraph 42W), our members are unclear whether there is more that is expected to be disclosed on this point. If there is not, then the disclosure requirement may not be necessary and could be deleted. In addition, it should be clarified if this disclosure should differentiate between contracts to sell versus hedges of those contracts i.e., whether the ‘renewable electricity covered by the contracts’ is the gross amount, or the net amount offset against the hedge.

Paragraph 42V a) states “The proportion of renewable electricity covered by the contracts to the total net volume of electricity purchased”. Our members are unclear how this is determined and whether it is the volume as per contract / (total electricity purchased less excess sales) i.e. the net volume total purchased, after excess sales. In addition, by asking for the proportion on renewable energy contracts specifically, the disclosure appears to be

implementing broader sustainability reporting objectives into the accounting standard. IFRS 7 does not seem to be the appropriate financial standard for this purpose.

With respect to paragraphs 42V (b), (c) and (d), it is unclear why the disclosures in (b) are relevant and why it is necessary to report on other types of purchases. Further, the relevance of (d) is unclear. If (c) is an average for the year and the entity bought energy at times when prices were above or below the average, then there would be a difference. But it is unclear why this is useful information and why such a detailed disclosure is required. The disclosures should be more tailored to the own use issue at hand.

With regards to (c) and the disclosure of the "the average market price per unit of electricity in the markets in which the entity purchased electricity", it is unclear if:

- This is the price per the market that the entity operates in i.e., the spot price the entity would have paid if they did not enter into the specific contract for renewable electricity.
- Whether this includes or excludes the effect of the contract entered into for renewable electricity and whether the effect of other power purchase agreements that may have been entered into, are included or excluded.
- If this is an average price over the period and across different market**s**. The requirement refers to market**s** (in the plural), so it is unclear as to what different markets should be taken into account.

For paragraph (d), it is unclear how there might be a substantial difference between (b) multiplied by (c), from the actual total cost incurred by the entity to purchase the volume of electricity in (b);is it because they historically entered into a contract which turned out to be very profitable / unprofitable for them? Furthermore, it is unclear how this information fits into the disclosure objective of providing information to enable users to understand how these contracts affect the amount, timing and uncertainty of future cashflows.

For some entities, providing the information required by paragraph 42V could be commercially sensitive and so our members question its appropriateness. We also question the usefulness of the requirement in paragraph 42V(c) to provide the average price per unit of electricity since it is the margin which ultimately drives profitability.

Given the concerns our members have with respect to paragraph 42V, it may be preferable to remove the whole paragraph. The challenges noted with respect to paragraph 42U could also be addressed by removing it. An alternative approach could be to partially expand and tabulate the information required by paragraph 42T.

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?

Many of the same comments apply for this section as are noted in the response to question 4, as the requirements in paras 67A to 67C are similar to those in paragraph 42T to 42V.

The proposals under IFRS 7.42W, have not been included in IFRS 19. This paragraph is useful in clarifying the level of detail to disclose, in particular that an entity need not disclose information for each contract separately. If the rest of the amendments to IFRS 7 have been carried forward to IFRS 19, it is suggested that 42W also be included.

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?

Paragraph 7.2.51 states, ”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.” It is unclear what this means. For example:

- Assume the reporting period starts on 1 January 2024, and ends on 31 December 2024.
- An entity enters into a contract to purchase renewable electricity on 1 March 2024. At that time the contract was thought to be outside the scope of IFRS 9.
- The amendments are issued on 1 December 2024, which the entity early adopts.
- Based on the amendments the contract will be in scope of IFRS 9. Assume this results in an asset with a FV of 100 being recognised as at 1 December 2024.

Paragraph 7.2.51 seems to propose:

- The entity would calculate the difference between the fair value and the old carrying amount on 1 December (100-0 = 100) and takes the difference through opening retained earnings at 1 January 2024. i.e., Dr Asset 100, Cr Opening Retained Earnings.
- The issue though is that the contract did not exist at 1 January 2024. If the asset is not recognised, then there appears to be a one-sided entry that is raised to only take the credit to opening Retained Earnings.
- This is the result of the measurement of the adjustment being taken at a point in time (1 December 2024), but the adjustment to retained earnings being recognised at an earlier point in time (1 January 2024).

To avoid these issues, it is suggested that the adjustment be taken to retained earnings at the date that the amendments are early adopted, i.e., "in ~~the opening~~ retained earnings (or other component of equity, as appropriate) at ~~the beginning of that reporting period~~".

If the suggestion above is not taken, and the requirement remains for the adjustment to be at the date the amendments are issued against *opening* retained earnings, then it should be clarified what is meant by this paragraph, and the reasons and rationale behind this should be given in the BCs.

If an entity early adopts the amendments part-way through a reporting period when the amendments are issued and if as is suggested above, an adjustment is made to retained earnings at that time (rather than to adjust opening retained earnings for the value of the contract at the date the amendments are issued), an entity could provide disclosures to enable users to understand the effect of this treatment in the current period. Paragraph 7.2.51 could be amended to reflect this approach.

Paragraph 7.2.52 states "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."

- This refers to "designated", but it should be clarified if the hedge should also have been effective. i.e., if there was designation, but it had previously failed the effectiveness test. The explanation in BC53 to BC55 seems clear that failed hedges cannot be reinstated, which is different to the approach taken in IFRS 9.7.2.44 relating to IBOR reform. It should be clarified in the amendments that this means that if the hedge had become ineffective and had therefore been de-designated, then the amendments cannot be applied.
- If it is the case the amendments can only be applied to continuing hedging relationships, this may lead to a counterintuitive outcome. This is because many of the hedges for which the amendments are aimed could have previously had effectiveness challenges.
- A further clarification required is whether updates to all the appropriate hedge documentation needs to be in place (with the updated designations) by a certain date (similar to the IFRS 9.6.9.3 requirements relating to IBOR reform), e.g., prior to the end of the reporting period when the amendments are first adopted.
- It is noted that the wording for the transitional requirements for the amendments for the cross-currency basis cost of hedging in IFRS 9.7.2.26(d) refers to the retrospective application only applying to hedging relationships that existed at the beginning of the reporting period in which the amendments are applied. The reference to 'relationships that existed' seems to be clearer than just referring to 'designation'.

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?
If you disagree, what effective date would you suggest instead and why?

If early adoption is allowed, it is unclear why such a shortened period until the effective date is needed i.e., by allowing early adoption, those entities who want to early adopt can do so, and by allowing the normal time frame for the effective date, this will give entities that require more time, the time needed to implement the amendments. Our members suggest that it would make more sense for the effective date to be 1 January 2026 to allow entities sufficient time to gather the necessary data and also to refine their energy usage and excess sale forecasts in good time prior to initial application.