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Disclosures – Issues paper

Objective

1 The objective of this agenda paper is to:

(a) present a summary of the feedback received by the IASB and the IASB staff considerations and proposals based on this;

(b) present an EFRAG Secretariat analysis of the IASB's tentative decisions.

Structure of the paper

2 This issues papers contains:

(a) IASB's tentative decisions (paragraph 4 to 6);

(b) ED proposals (paragraph 7 to 10);

(c) Feedback to the ED proposals and IASB staff analysis (paragraph 11 to 42);

(d) IASB's discussion (paragraph 43 to 47); and

(e) EFRAG Secretariat assessment (paragraph 48 to 53);.

3 Question to EFRAG FR TEG is included in paragraph 14 of agenda paper 03-01.

IASB's tentative decisions

4 IASB tentative decisions are presented in paragraph 6 of agenda paper 03-01. However, they have been repeated here in paragraph 5 below to facilitate the reading of this agenda paper.

5 In October 2024, the IASB tentatively decided to finalise the proposed disclosure requirements as they were set out in the ED (including the proposals applicable to an entity applying IFRS 19 Subsidiaries without Public Accountability: Disclosures) but with minor changes:

(a) to limit the scope of the disclosure requirements to contracts that would be accounted for in accordance with the proposed amendments —that is, contracts:

(i) entered into for the receipt of nature-dependent electricity (NDE) that would be accounted for as executory contracts in accordance with the proposed own-use amendments; and

(ii) designated in a hedging relationship as hedging instruments in accordance with the hedge accounting amendments.

(b) to clarify that, for contracts described in (a)(i), an entity would be required to disclose information about their terms and conditions that expose the entity to:

(i) the variability of the contracted amount of nature-dependent electricity; and

(ii) the risk of oversupply of electricity in any delivery interval.

(c) to clarify that, for contracts described in (a)(ii), an entity would satisfy the proposed requirement to disclose information about the contracts' terms and conditions by disaggregating the information required to be disclosed by paragraph 23A of IFRS 7 Financial Instruments: Disclosures[1].

(d) to require, for unrecognised contractual commitments from contracts described in (a)(i), an entity to disclose:

(i) the aggregated expected cash flows from buying electricity under these contracts. An entity would be required to use its judgement to determine the appropriate time bands within which to aggregate the future expected cash flows.

(ii) qualitative information about how it assesses whether a contract might become onerous, including the methods and assumptions it used to make this assessment.

(e) to require, for contracts described in (a)(i), an entity to disclose qualitative and quantitative information about how it determines whether it remains a net-purchaser for the reporting period. The entity is required to disclose information about the cash flows for the reporting period arising from:

1 IFRS 7.23A Unless exempted by paragraph 23C, an entity shall disclose by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity.

(i) purchases of electricity under the contracts, disaggregating information about the purchases of any unused electricity;

(ii) sales of unused electricity; and

(iii) *purchases of electricity that offset sales of unused electricity.*

(f) to amend paragraph 5 of IFRS 7 to ensure that the contracts described in (a)(i) would be subject to the disclosure requirements proposed for inclusion in that Standard.

(g) to require an entity to cross-refer between notes to the financial statements if it disclosed information about contracts within the scope of the proposed amendments in more than one note.

6 Thirteen of 14 IASB members agreed with these decisions.

ED proposals

7 The ED Contracts for Renewable Electricity proposed 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 enables users to understand how these contracts affect the amount, timing and uncertainty of the entity's future cash flows. Paragraph 42T of the ED required the following items of information to meet this objective:

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

(b) for contracts that were not measured at fair value, either the fair value of the contracts at the reporting date together with the information required by paragraphs 93(g)–(h) of IFRS 13 or the volume of electricity expected to be sold or purchased over the remainder of the contract. An entity was 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.

8 The ED also required 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.

9 Paragraph 42W of the ED required entities to consider the appropriate level of aggregation/disaggregation.

10 The same disclosure requirements were largely included in the proposed amendments to IFRS 19 as in the proposed amendments to IFRS 7.

Feedback to the ED proposals and IASB staff analysis

11 Information on this section is prepared based on the IASB staff agenda paper AP3B-Disclosures.

The need for the proposed disclosures

Feedback to the ED proposals

12 Most respondents (including companies, an investor group and regulators) agreed with the need for disclosures and the proposed disclosure objectives. Most of these respondents, however, disagreed with many of the proposed items of information. A few respondents considered that existing disclosure requirements in IFRS Standard were sufficient. Others noted that the proposed disclosures were not proportional to disclosures required for other executory contracts.

The scope of the proposed disclosures

13 The IASB proposed in the ED disclosures for all Nature-Dependent Electricity (NDE) contracts, including those that are excluded from the scope of IFRS 9 after applying the own-use requirements.

Feedback to the ED proposals

14 Many respondents said that no disclosures should be required for NDE contracts accounted for as financial instruments at fair value as disclosures already required by IFRS 7 and IFRS 13 were sufficient. A few respondents that sell and deliver electricity under NDE contracts noted that the disclosures required by IFRS 15 are sufficient for investors to understand the effect of these contracts on the entity's future cash flows and financial performance.

15 A few respondents suggested that the proposed disclosures had to apply only to NDE contracts for receipt[2] accounted for as executory contracts after applying the own-use

[2] An NDE contract for the receipt of electricity that can be settled net. Unless stated otherwise, we assume these contracts are accounted for as executory contracts applying the own-use amendments.

amendments and to NDE contracts at fair value that are designated in a hedge relationship using the hedge-accounting amendments.

IASB staff analysis

16 The IASB Staff acknowledged that the information an entity was already required to provide under IFRS 7, IFRS 13 and IFRS 15 aimed to achieve very similar objectives as the information required by the proposals. Thus, IFRS 7, IFRS 13 and IFRS 15 and the proposals would result in similar information to be included in the financial statements of entities that account for its NDE contracts at fair value and NDE contracts for delivery[3]. The table below prepared by the IASB Staff maps some of the disclosures required by IFRS Standards to the ED proposals for NDE contracts at fair value and NDE contracts for delivery.

[3] An NDE contract for the delivery of electricity that can be settled net. Unless stated otherwise, we assume these contracts are accounted for as executory contracts applying only the own-use requirements and apply IFRS 15.

Items of information	**NDE contracts for receipt**	**NDE contracts for delivery**	**NDE contracts at fair value**
Information that enables investors to understand the effects on the entity's future cash flows			
terms and conditions	Discussed later in this paper	Paragraph 119 of IFRS 15	Paragraph 23A of IFRS 7 (see paragraph 26) and paragraph 93(d) of IFRS 13
volume of electricity expected to sell or purchase over contract period; or		Paragraph 120 of IFRS 15	n/a
fair value disclosures as alternative			
Information that enables investors to understand the effects on the entity's financial performance			
proportion of total electricity sales or purchases	Discussed later in this paper	Paragraphs 114–115 of IFRS 15	Paragraph 93(f) of IFRS 13
additional items of information for purchasers under these contracts		n/a	Paragraph 93(f) of IFRS 13

17 In this regard, the IASB Staff agreed with respondents that the proposed disclosures are not needed for:

(a) NDE contracts for delivery as the requirements in IFRS 15 would be sufficient

(b) NDE contracts at fair value not designated in a hedging relationship applying the hedge-accounting amendments as the requirements in IFRS 7 and IFRS 13 would be sufficient. The IASB Staff acknowledged that paragraph 23A of IFRS 7 would not apply to NDE contracts at fair value not designated in a hedging relationship. However, they were of the view that the FV measurement and the supporting disclosures required by paragraph 93(d) of IFRS 13 provide sufficient information about the effect of these contracts on an entity's future cash flows.

18 Therefore, the IASB focused disclosures on those contracts for which the amendments result in a change in accounting ensuring disclosures remain proportional to the narrow-scope amendments.

The terms and conditions of NDE contracts

Feedback to the ED proposals

19 Most respondents did not disagree with the IASB's proposal for an entity to disclose the terms and conditions of NDE contracts.

20 At the June 2024 joint meeting of CMAC and GPF, CMAC members said that, in order to be useful to investors, the proposal to disclose terms and conditions of the contracts should be more specific about the items of information to be disclosed. However, a few respondents disagreed with requiring information about the type of pricing, price-adjustment clauses and cancellation clauses because this information could be commercially sensitive.

IASB staff analysis

21 To address above feedback, the IASB staff considered that some respondents had suggested that the proposed disclosures needed to focus on providing information about the unique risks of NDE contracts.

22 In this regard, the IASB staff suggested to remove the examples of terms and conditions included in the ED (which might be commercially sensitive according to the feedback received) and require information that enable investors to understand the terms and conditions that expose an entity to variability of the contracted amount of nature-dependent electricity and to the risk of oversupply of electricity in any delivery interval.

23 In the case of NDE contracts at fair value that are designated in a hedging relationship applying the hedge-accounting amendments, the IASB Staff considered that an entity satisfies the proposed requirement by disaggregating for NDE contracts the information required by paragraph 23A of IFRS 7.

Expected electricity purchases or fair value information

Feedback to the ED proposals

24 Of the few respondents that commented on this matter, many said that the cost of estimating the fair value of NDE contracts for receipt (when these contracts are not managed or reported on a fair value basis) outweighed the benefit of this information. A few said that due to the high level of estimation uncertainty, fair value information would not be comparable across entities. A few respondents suggested that information about expected purchases under the contract should be mandatory.

25 Most respondents did not disagree with the proposal in the ED requiring entities to disclose the volume of electricity expected to be sold or purchased over the contract.

26 A few respondents said that for disclosures in financial statements the amount of expected electricity purchases is less relevant compared to the expected cash flows (as opposed to sustainability disclosures). A few other respondents said that information is insufficient to enable investors to understand how the contracts affect the entity's future cash flows. An investor organisation noted that this information is completely different in nature to the fair value disclosures as only the latter takes into account the counterparty risk which may be significant give the long-term nature of these contracts. In context of counterparty risk, another respondent noted that entities should assess, according to IAS 37, whether contracts are onerous.

IASB staff analysis

27 The IASB staff considered that a balanced approach to move forward would be requiring an entity to disclose:

(a) the aggregated expected future cash flows from buying electricity; and

(b) qualitative information about how an entity manages the risk that its NDE contracts for receipt might become onerous.

28 Benefits of the above approach were:

(a) It provides information about the future cash flows that arise from the contracts and consequently about the size of the entity's exposure;

(b) It provides information about the pricing without requiring the price itself;

(c) it provides information about how an entity managed its 'counterparty risk' through information about how a contract might become onerous; and

(d) it requires less cost (than information on FV) as the information is entity-specific;

29 The IASB Staff acknowledged the drawbacks of this approach such as the costs to provide this information, especially if an entity has several contracts, or the lack of information on whether a contract is in an unfavourable or favourable position at the reporting date. However, they were of the view that there was a trade-off between the costs of providing the information and the benefits for users.

Feedback about the time bands

30 A few respondents suggested that the IASB requires an entity to apply its judgement determining the appropriate time bands for which to disclose the expected amount of

electricity purchases under the contracts. This would be consistent with paragraph B11 of IFRS 7[4].

31 The IASB Staff agreed with respondents that an entity should apply its judgment to determining the appropriate time bands.

The effect of NDE contracts for receipt on financial performance (paragraph 8 above)

32 Many respondents disagreed with the proposed items of information because:

(a) the proposals appeared to be a convoluted way of reconstituting price-related information;

(b) gathering information about total electricity purchases and average market prices required entities to gather information about transactions beyond its NDE contracts. This would be costly because entities do not typically track this information at the reporting entity level. In addition, average market prices may not be a proper representation of the entity's price exposure as an entity uses different sources for procuring electricity and each source may have different prices.

(c) the item of information related to the proportion of electricity covered by the contracts to the total net volume of electricity purchased, appear to be more relevant for sustainability disclosures.

(d) the qualitative disclosures about substantial differences would not result in useful information if market prices were volatile and this was typically the case.

33 Some respondents suggested some alternative disclosures that would provide information about the effect of NDE contracts on an entity's financial performance:

(a) information about the effect on financial performance of the sales of unused electricity;

(b) disclosure of actual expenses incurred under NDE contracts for receipt for the reporting period; and

(c) disclosure of the net cost for the reporting period from being a net-purchaser of electricity.

[4] IFRS 7.B 11 'In preparing the maturity analyses required by paragraph 39(a) and (b), an entity uses its judgement to determine an appropriate number of time bands. For example…'

IASB staff analysis

34 The IASB staff continued to agree with the ED proposal to include a disclosure objective that enables investors to understand the effect NDE contracts had on the entity's financial performance. However, they agreed with some of the concerns raised by respondents included in paragraph 32 above.

35 Considering the feedback and the unique risks arising from NDE contracts for receipt, the IASB Staff was of the view that the relevant effects these contracts had on financial performance were:

(a) purchases under NDE contracts for receipt;

(b) sales of unused electricity; and

(c) purchases of electricity to offset these sales (resulting in the entity being a net-purchaser over a reasonable period of time .

36 The IASB Staff considered that a way forward could be to require an entity to disclose qualitative and quantitative information about on how it determined that it remained a net-purchaser under the contract, particularly information about the effects listed in paragraph 35 but without specifying the items of qualitative and quantitative information the entity could provide.

37 Benefits of the above approach are:

(a) Disclosures are linked to the net-purchaser requirements included in the own-use amendments. Since an entity had to perform the net-purchaser backward-looking assessment, the IASB Staff did not consider this assessment would result in significant additional cost;

(b) Required information is linked to the unique effects on financial performance that arise from NDE contracts for receipt; and

(c) Applying judgement to determine what qualitative and quantitative information an entity should provide ensures that an entity applies proportionality to the disclosures based on the importance of the contracts.

38 The IASB Staff acknowledged that such approach would reduce comparability and increase the cost for users but it would cater for a variety of contracts and market designs.

Subsidiaries without public accountability

39 Many respondents agreed to not reduce the disclosures for subsidiaries without public accountability. A few respondents disagreed because of the costs needed to prepare the

information. A few others suggested the IASB requires this information only if contracts are significant.

40 The IASB Staff continued to agree with the IASB's rationale not to reduce the disclosures for subsidiaries without public accountability (see BC50 of the ED). They were of the view that their general recommendation to reduce disclosures (compared to the ED proposals) would reduce the burden for subsidiaries addressing most of the concerns raised by respondents.

Other clarifications

41 A few respondents noted that the IASB should amend paragraph 5 of IFRS 7 if it was to include the proposed disclosures in IFRS 7. Paragraph 5 states that IFRS 7 applies only to contracts to buy or sell a non-financial item that are within the scope of IFRS 9. This paragraph would then exclude NDE contracts for receipt accounted for as executory contracts.

42 The IASB Staff agreed with this recommendation.

IASB's discussion

43 IASB members generally supported the proposed disclosure requirements.

44 Some members requested a few clarifications on the proposed disclosure requirements for demonstrating how an entity had determined that it had remained a net-purchaser under NDE contracts (see paragraph 5(e) above). Specifically, they noted that:

(a) There was a need of specifying the required disclosures for purchases under NDE contracts for receipt by pointing at whether an entity should disclose cash flows or volume;

(b) Regarding the disclosure of purchases of electricity to offset sales of unused energy, the need for clear guidance was emphasised;

(c) It was also questioned whether the disclosures should refer to the same volume allowing users to determine the gain or losses related to that specific volume.

45 In addition to the IASB Staff proposals, the IASB members voted in favour of specifying that these disclosures should provide cash flows on currency amounts. Furthermore, they voted in favour of specifying that disclosures of total electricity purchases related to a NDE contract should also disaggregate purchases related to unused electricity.

46 A few IASB members also highlighted the risk of disclosures for NDE contracts, scattered across the financial statements. This fragmentation hinders a comprehensive

understanding of an entity's exposure to NDE contracts, especially given the inherent risks involved with these types of contracts. The proposed solution by a IASB staff member of cross-referencing within the financial statements was well-received by majority of IASB members.

47 A few IASB members shared concern in relation to the proposed onerous NDE contract disclosures. They noted that providing disclosures only when a contract becomes onerous might not provide users with timely information. Entities should rather disclose potential events that could trigger an NDE contract to become onerous as well as key assumptions underpinning their assessment of onerous contract risk.

EFRAG Secretariat assessment

48 The IASB's tentative decisions address all the comments raised in question 5 of EFRAG's Comment Letter (see table below in paragraph 53).

49 In addition, the IASB is requiring an entity to disclose the aggregated expected cash flows from buying electricity and qualitative information about how an entity assesses whether a contract might become onerous, including the methods and assumptions it used to make this assessment (see paragraph 5(d)(ii) above). The former replaces the disclosure included in paragraph 42T(b)(ii) of the ED that required an entity to disclose the volume of electricity to be sold or purchased over the term of the contract.

50 Expected cash flows from buying electricity will provide users with an estimate of the future cash outflows arising from these contracts. We are of the view that this information is more helpful than the expected volumes of electricity to be purchased over the contract as monetary terms are generally better understood by users than energy measures. In addition, the expected volumes of electricity to be purchased over the contract may not be useful for users without the contract purchase price.

51 Information about how an entity assesses whether a contract might become onerous, including the methods and assumptions might be helpful for users. However, we would like to refer to paragraph 31 of AP3 of the December 2023 IASB meeting where the IASB staff explained how off-takers see the risk of a PPA becoming onerous: *"Off-takers acknowledged that from a risk management perspective PPAs carry significant price risk because the price is fixed for the contract duration. However, as power is an input into the prices of their goods and services, they would not necessarily consider a PPA to become onerous simply because the spot price is below the contracted fixed price. From their perspective, the input cost for power compared to the total product cost, would make it unlikely that even in an unfavourable price risk scenario—such as if the future spot energy*

price is significantly lower than the contracted fixed price of a PPA—for that effect to not be absorbed via the product pricing (ie they could increase the price of goods and services accordingly or accept a lower margin). As a result, these off-taker also did not think such contracts could likely become onerous in the future". In this regard, as these contracts will likely not become onerous in the future, we are of the view that this requirement may result in boilerplate disclosures.

52 Nevertheless, the EFRAG Secretariat considers that the proposed disclosure requirements generally achieve an acceptable cost-benefit trade-off.

53 Detail of comments on disclosures included in EFRAG final comment letter.

EFRAG Final Comment Letter	IASB's tentative decision	EFRAG Secretariat comment
Scope of the proposed disclosures		
EFRAG suggested in paragraph 26 of the FCL that the disclosure requirements proposed in the ED apply only to contracts within the scope of paragraph 6.10.1 of IFRS 9 that qualify for the own use exception. EFRAG was of the view that users already obtained useful information for contracts that were accounted for at fair value.	The IASB has decided to limit the scope of the disclosure requirements to contracts that would be accounted for in accordance with the proposed amendments that is NDE contracts for receipt and NDE contracts designated in a hedging relationship as hedging instruments in accordance with the amendments.	The comment is generally addressed as the IASB is requesting disclosures for contracts that are benefitting from the proposed amendments.
Time bands		
EFRAG suggested in paragraph 27 of the FCL the disclosure requirement of volume by range of periods to be mandatory allowing management to define relevant time ranges instead of prescribing them.	An entity is required to use its judgement to determine the appropriate time bands within which to aggregate the future expected cash flows.	The comment is addressed.
Proportion of renewable electricity covered by the contracts to the total sales / purchases of electricity		

EFRAG questioned in paragraph 28 of the FCL whether this items of information requested in the last sentence of paragraph 42U and in paragraph 42V(a) of the ED was fit for the purpose of financial statements.	The IASB is not requiring these items of information anymore.	The comment is addressed.
NDE contracts for delivery		
EFRAG proposed in paragraph 29 of the FCL to omit paragraph 42U of the ED on the basis that contracts meeting the own use exception would generally be subject to the disclosure requirements in IFRS 15.	The disclosure objective for NDE contracts for delivery included in paragraph 42U of the ED has been removed following the IASB's discussion.	The comment is addressed.
Information related to the financial impacts of the sales of unused volumes on the market		
EFRAG suggested in paragraph 30 of the ED to provide this information for the purpose of enabling users understand the effect of these contracts in the performance of the period.	The IASB is requiring an entity to disclose the cash flows of the reporting period related to 1) the purchases of electricity under the contracts related to unuse energy, 2) the sales of unused energy and 3) the purchases of energy to offset the sales of unused energy.	The comment is addressed.
Items of information included in paragraph 42V of the ED are excessive and burdensome		
EFRAG suggested in paragraph 31 of the ED that the IASB reconsidered the appropriateness of these items of information because they were excessive and burdensome and could also be commercially sensitive.	The IASB is not requiring these items of information anymore.	The comment is addressed.
Amend IFRS 7 to capture disclosures of NDE contracts accounted for as executory contracts		

EFRAG noted in paragraph 32 of the ED that the scope of IFRS 7 will have to be adapted to capture the disclosure requirements for contracts accounted for as executory contracts.	The IASB tentatively decided to amend paragraph 5 of IFRS 7 to ensure that the contracts would be subject to the disclosure requirements proposed.	The comment is addressed.