EFRAG's Draft Letter to the European Commission regarding Endorsement of Contracts Referencing Nature-dependent Electricity—Amendments to IFRS 9 and IFRS 7

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European Commission
1049 Brussels

[dd] January 2025

Dear Mr Berrigan

Endorsement of Contracts Referencing Nature-dependent Electricity—Amendments to IFRS 9 and IFRS 7

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards, EFRAG is pleased to provide its opinion on the Contracts Referencing Nature-dependent Electricity—Amendments to IFRS 9 and IFRS 7 ('the Amendments'), which were issued by the IASB on 18 December 2024. An Exposure Draft of the Amendments was issued on 8 May 2024. EFRAG provided its comment letter on that Exposure Draft on 29 July 2024.

The objective of the Amendments is to better reflect the effects of physical and virtual nature-dependent electricity contracts in the financial statements through narrow-scope amendments to the own-use, hedge accounting and disclosure requirements.

The Amendments shall be applied retrospectively for the own-use amendments and prospectively for the hedge accounting amendments for annual periods beginning on or after 1 January 2026, with earlier application permitted. If entities apply the Amendments earlier, they shall disclose that fact. A description of the Amendments is included in Appendix 1 to this letter.

In order to provide our endorsement advice as you have requested, we have first assessed whether the Amendments would meet the technical criteria for endorsement, in other words whether the Amendments would provide relevant, reliable, comparable and understandable information required to support economic decisions and the assessment of stewardship, lead to prudent accounting and would not be contrary to the true and fair view principle. We have then assessed whether the Amendments would be conducive to the European public good. We provide our analysis in Appendix 2 to this letter and our conclusions below.

Do the Amendments meet the IAS Regulation technical endorsement criteria?

Based on the reasoning in Appendix 2 to this letter, EFRAG has concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship and raise no issues regarding prudent accounting. EFRAG has also assessed that the Amendments do not create any distortion in their interaction with other IFRS Accounting Standards and that all necessary

disclosures are required. Therefore, EFRAG has concluded that the Amendments are not contrary to the true and fair view principle.

Are the Amendments conducive to the European public good?

EFRAG has assessed that the Amendments would improve financial reporting and would reach an acceptable cost-benefit trade-off. EFRAG has not identified that the Amendments could have any adverse effect on the European economy, including financial stability and economic growth. Accordingly, EFRAG assesses that endorsing the Amendments is conducive to the European public good. EFRAG's reasoning is explained in Appendix 3 to this letter.

In EFRAG's assessment of whether the Amendments would be conducive to the European public good, EFRAG has assessed whether the Amendments would improve financial reporting, would reach an acceptable cost-benefit trade-off and could affect economic growth.

Our advice to the European Commission

As explained above, we have concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, raise no issues regarding prudent accounting, and that they are not contrary to the true and fair view principle. We have also concluded that the Amendments are conducive to the European public good. Therefore, we recommend the Amendments for endorsement.

On behalf of EFRAG, I would be happy to discuss our advice with you, other officials of the European Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Wolf Klinz
EFRAG FRB Chair

Appendix 1: Understanding the changes brought about by the Amendments

Background of the Amendments

1 The IFRS Interpretations Committee (IFRS IC) received a request about how an entity would apply paragraph 2.4 of IFRS 9 *Financial Instruments* to contracts to buy and take delivery of electricity produced from nature-dependent sources[1]. The request said entities experience application challenges when applying the requirements in IFRS 9 to these contracts – commonly referred to as 'physical power purchase agreements' (physical PPAs). Due to the characteristics of the production of electricity from nature-dependent sources, the assessment of own-use requirements under current IFRS 9 guidance was not clear and in the eyes of the requester did not reflect an entity's intended own use of electricity.

2 Stakeholders also said that if the IASB was to consider narrow-scope standard-setting for physical PPAs, it should also consider how an entity accounts for what is commonly referred to as 'virtual PPAs' – PPAs that require net settlement of the difference between the prevailing market price and the contractually agreed price for the amount of electricity produced from a referenced production facility without the purchaser ever having the right or intending to take delivery of the electricity produced. Stakeholders said the objective of both physical PPAs and virtual PPAs is to ensure long-term access to renewable electricity and / or to fix the price per unit of electricity purchased or sold. Consequently, the economic outcomes of the two types of contracts are the same. In many cases, the design and operation of the electricity market determines the types of contracts entities can enter into.

3 The Committee referred the matter to the International Accounting Standards Board (IASB) for its consideration. Stakeholders told the IASB during its research that applying the requirements in IFRS 9 to PPAs sometimes provided less useful information to users of financial statements. Additionally, stakeholders said a timely solution was needed because of an expected increase in the use of PPAs due to the increase in the demand for renewable electricity.

The issues and how they have been addressed

4 Paragraphs 2.4 to 2.7 of IFRS 9 effectively add a number of non-financial contracts to the scope of IFRS 9. Those paragraphs do not apply to virtual PPAs as virtual PPAs are financial instruments.

Own-use exemption

5 Paragraph 2.4 of IFRS 9 states that a contract to buy or sell a non-financial item should be accounted for within the scope of IFRS 9 as if it was a financial instrument when it:

(a) can be settled net in cash or by exchanging financial instruments; and

(b) is not entered into and held for the purpose of receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements (this

[1] The application of paragraph 2.4 of IFRS 9 to the seller was not raised as an issue. The Amendments do not make any changes to how a seller applies paragraph 2.4.

condition is sometimes described as a 'normal purchase or sale' or the own-use exemption).

6 Paragraph 2.6 of IFRS 9 states that there are various ways in which a contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments, and it describes four ways in which this would be the case. Power purchase agreements are generally considered to be capable of being net settled according to the requirement in paragraph 2.6 and are thus within the scope of IFRS 9 unless the own-use exemption applies.

7 Stakeholders pointed to application issues specific to nature-dependent electricity contracts that are relevant for the buyer. Nature-dependent electricity contracts generally follow the producer's production load. The buyer must offtake all or a portion of the electricity produced by the referenced facility or facilities. Production is subject to nature-dependent variability, and the expected production profile is generally not aligned with the expected or actual consumption profile of the buyer.

8 When mismatches between the production of electricity and its consumption by the buyer occur, the entity has no viable economic option but to sell its unused electricity. Stakeholders told the IASB that even if these sales are expected from the start of the contract and might be substantial or frequent, an entity's intention when entering into these contracts is to take delivery of electricity in accordance with the entity's expected usage requirements. Therefore, these sales are not evidence of a profit-taking motive.

9 Before the Amendments, IFRS 9 requirements related to the own-use exemption did not clearly state how an entity considered sales of unused electricity that arose from nature-dependent electricity contracts in the context of electricity markets, where an entity was required to sell any unused electricity at the time of taking delivery in order to ensure a continuous balance between supply and demand on the grid and not for the purpose of trading.

Hedge accounting

10 Similar issues caused by amount uncertainty were identified for the application of hedge accounting requirements. For contracts that are not accounted for as normal sales or purchases using the own-use exemption and for virtual PPAs, an entity may want to apply hedge accounting to reflect the effects of their risk management activities. When applying the current hedge accounting requirements in IFRS 9, application challenges arise in designating and measuring the hedge item if a contract for nature-dependent electricity with a variable nominal amount is designated as the hedging instrument.

11 IFRS 9 requires the hedged item to be designated as a specified nominal amount or volume or as a component of such a nominal amount or volume. Any changes to the hedged item, such as a change in the nominal amount or volume designated, would result in the discontinuation of the hedging relationship because such changes indicate a change in the entity's documented risk-management objective.

12 In most cash flow hedging relationships, the only cash flow variability that arises results from changes in the hedged risk, for example the market price of a non-financial item. However, when using a contract referencing nature-dependent electricity as a hedging instrument,

cash flow variability also arises because the nominal amount or volume of that instrument is variable (not predetermined), and this variability arises because the source of production is nature-dependent.

13 Before the Amendments, IFRS 9 requirements related to hedge accounting did not allow an entity to appropriately reflect its risk management strategy when the hedging instrument was a contract referencing nature-dependent electricity. The challenges encountered by stakeholders related to the fact that the amount in the hedging instrument is variable (the underlying in the contract is uncertain in terms of amount and timing) and, in the case of a purchaser, to the fact that the profile of the total consumption differ from the profile of the hedging instrument.

14 From a seller's perspective, although the entity might be able to designate a qualifying hedging relationship, the fact that the hedged item has a fixed nominal amount compared to a variable nominal amount in the hedging instrument inevitably resulted in hedge ineffectiveness. The IASB acknowledged that such a designation did not appropriately consider the contractual link between the hedged item (being the electricity produced and sold) and the hedging instrument (being the contract for nature-dependent electricity), which economically results in all the electricity produced being fully hedged.

15 From a purchaser's perspective, an additional challenge relates to the lack of a contractual link between the amount of forecast electricity purchases and the amount of electricity produced from a nature-dependent source under the contract. However, the hedged item and the hedging instrument have a relationship because the contract for renewable electricity will provide or may be expected to provide an effective economic hedge to the extent that the amount of electricity produced does not exceed the actual spot purchases of electricity.

16 Overall, the pre Amendments requirements in IFRS 9 requiring an entity to designate the hedged item as a specified nominal amount or volume, or as a component of such a nominal amount or volume, would result in an entity only being able to designate a small portion of its forecast electricity transactions.

How the issues have been addressed

17 Considering the challenges outlined above, the IASB concluded that the issues relate to the characteristics of nature-dependent electricity contracts where an entity is exposed to the variability of the underlying amount of electricity produced because the source of the electricity generation is nature-dependent, so that supply is uncertain and variable at specific times.

18 The IASB decided to add a narrow-scope standard-setting project to its work plan to propose amendments to IFRS 9 for contracts to buy or sell electricity produced from nature-dependent sources that have specified characteristics. These amendments aim to ensure financial statements faithfully represent the effects of these contracts. The IASB also concluded that it was necessary to amend IFRS 7 *Financial Instruments: Disclosures* by adding disclosure requirements to certain contracts for nature-dependent electricity within the scope of the amendments, enabling investors to understand the effects of these contracts on an entity's financial statements.

What has changed?

Scope of the Amendments

19 The scope of the Amendments is limited to contracts referencing nature-dependent electricity. Such contracts are characterised by contractual features exposing an entity to variability in the underlying amount of electricity because the electricity is generated from a source dependent on uncontrollable natural conditions. Contracts referencing nature-dependent electricity include both contracts to buy or sell nature-dependent electricity and financial instruments that reference such electricity (physical and virtual 'NDE contracts').

20 NDE contracts might be accounted for in accordance with IFRS Accounting Standards other than IFRS 9 or result in the application of other Standards, for example IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 16 *Leases*, IAS 28 *Investments in Associates and Joint Ventures* or IFRIC 12 *Service Concession Arrangements*. Stakeholders did not express concerns about contracts referencing nature-dependent electricity that entities account for by applying other IFRS Accounting Standards. The IASB therefore decided to limit the scope of the Amendments to contracts to which the requirements in IFRS 9 apply.

21 The IASB also considered whether to include in the Amendments other types of electricity contracts. However, stakeholders did not raise the same concerns for other types of contracts as they did for the NDE contracts. For example, the IASB did not intend to include contracts for electricity generated from biofuel within the scope of the Amendments because such electricity generation is not subject to the same uncertainty as that within the scope. Stakeholders said that biofuel power plants can operate more like traditional fossil fuel power plants because the source of electricity generation is controllable. Biofuel, which is derived from organic materials such as plant biomass, animal waste and recycled waste, can be stored until used to generate electricity. These characteristics allow biofuel power plants to generate electricity on demand unlike, for example, wind power, which depends on uncontrollable natural conditions.

Own-use exemption

22 To address the application issue outlined in paragraphs 5 through 9 above, the IASB developed the application guidance in paragraphs B2.7–B2.8 of IFRS 9 to help entities assess whether a contract to buy electricity generated from a source dependent on natural conditions is held for the entity's own-use in accordance with paragraph 2.4.

23 Specifically, an entity is required to assess whether it has been and expects to be a net purchaser of electricity for the contract period. An entity is a net purchaser of electricity if it buys sufficient electricity to offset the sales of any unused electricity in the same market in which it sold the electricity.

24 In determining whether an entity is a net purchaser of electricity, for the determination of whether a contract is for own use the entity shall consider reasonable and supportable information (that is available without undue cost or effort) about its past, current and expected future electricity transactions over a reasonable amount of time. The entity identifies 'a reasonable amount of time' by considering the variability in the amount of electricity expected to be generated due to the seasonal cycle of the natural conditions and the variability in the entity's demand for electricity due to its operating cycle. In determining

whether the entity has been a net purchaser, 'a reasonable amount of time' shall not exceed 12 months.

25 The application guidance in paragraph B2.7-B2.8 is designed to clarify when sales of electricity during the contract period of an NDE contract do not make the NDE contract fail the own-use exemption. The IASB confirmed that paragraph 2.4 and the additional considerations in paragraphs B2.7–B2.8 do not apply to contracts referencing nature-dependent electricity that are required to be settled net in cash or another financial instrument. These contracts are financial instruments within the scope of IFRS 9 unless they are explicitly in the scope of another standard. Similarly, paragraphs B2.7–B2.8 do not apply to any contracts for non-NDE electricity or any other commodity contracts with physical delivery that can be settled net. These contracts are to follow the existing requirements in paragraph 2.4 of IFRS 9.

Hedge accounting requirements

26 To address the application issues outlined in paragraphs 10 through 16 above, the IASB added paragraphs 6.10.1 and 6.10.2 to IFRS 9, outlining the requirements specific to NDE contracts related to the designation of the hedged item. All other requirements included in Chapter 6 of IFRS 9 continue to apply to the hedging relationships featuring NDE contracts.

27 Specifically, an entity is permitted to designate as the hedged item a variable nominal amount of forecast electricity transactions that is aligned with the variable amount of nature-dependent electricity expected to be delivered by the generation facility as referenced in the hedging instrument. If the cash flows of the contract referencing NDE designated as the hedging instrument are conditional on the occurrence of a forecast transaction that is designated as the hedged item in accordance with the above, this forecast transaction is presumed to be highly probable as required by paragraph 6.3.3 of IFRS 9.

28 The IASB concluded that when an entity assesses whether an economic relationship exists, the entity is assessing only value changes that relate to the hedged risk of the designated (variable) amount (in this case, the price risk). The IASB also noted that IFRS 9 does not require that a hedging relationship be perfectly effective (for example in hedging price risk) to qualify for hedge accounting.

Disclosure requirements

29 For the contracts fulfilling the own-use exemption requirements as set by the Amendments, an entity shall disclose in a single note in its financial statements information that allows users of its financial statements to understand the effects these contracts have on the amount, timing and uncertainty of its future cash flows and on its financial performance. To meet these objectives, an entity shall disclose:

(a) information about contractual features that expose the entity to the risk of oversupply and variability of the contracted amounts;

(b) information about unrecognised commitments arising from such contracts as of the reporting date, including estimated cash flows and the entity's assessment of whether a contract might become onerous; and

(c) qualitative and quantitative information about effects on the entity's financial performance for the reporting period, including costs arising from purchases of

electricity under the contract, proceeds from sales of unused electricity and costs arising from purchases of electricity to offset the sales.

30 For the contracts designated in a cash flow hedge relationship in accordance with the requirements set by the Amendments, an entity shall disaggregate the information the entity discloses, by risk category, about the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows in accordance with paragraph 23A of IFRS 7.

31 If an entity discloses information about other contracts referencing nature-dependent electricity in other notes in its financial statements, the entity shall include cross-references to those notes in the single note required by the Amendments.

When do the Amendments become effective?

Effective date

32 An entity is required to apply the Amendments for annual reporting periods beginning on or after 1 January 2026. An entity can apply the Amendments for an earlier period and, if doing so, shall disclose that fact. The date of initial application shall be the beginning of a reporting period, which might be a reporting period other than an annual reporting period.

Transition requirements

33 The IASB expects that the Amendments to the own-use exemption in contracts referencing nature-dependent electricity would affect entities that account for their contracts to buy and take delivery of nature-dependent electricity as derivatives. In accordance with the Amendments, those entities might account for these contracts as executory contracts. Therefore, the IASB decided to require an entity to apply retrospectively the Amendments to the own-use exemption in accordance with IAS 8 *Basis of Preparation of Financial Statements*. However, the IASB also decided not to require an entity to restate comparative information. The IASB decided instead to permit an entity to restate prior periods if doing so is possible without the use of hindsight.

34 The IASB decided to require an entity to apply prospectively the Amendments to the hedge accounting requirements. The IASB acknowledged potential difficulties caused by designating an off-market hedging instrument in a new hedging relationship and decided to permit an entity to discontinue current hedging relationships to facilitate the designation of a new hedging relationship in accordance with the Amendments in paragraphs 6.10.1–6.10.2 using the same hedging instrument.

35 The IASB also permits an entity at the date of initial application to irrevocably designate as at fair value through profit or loss in accordance with paragraph 2.5 a contract that is excluded from the scope of IFRS 9 but that matches the description in paragraph 2.3A of IFRS 9.

Appendix 2: EFRAG's technical assessment on the Amendments against the endorsement criteria

Notes to Constituents:

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on the Amendments. In it, EFRAG assesses how the Amendments satisfy the technical criteria set out in the Regulation (EC) No 1606 2002 for the adoption of international accounting standards. It provides a detailed evaluation for the criteria of relevance, reliability, comparability and understandability so that financial information is appropriate for economic decisions and the assessment of stewardship. It evaluates separately whether the Amendments lead to prudent accounting and finally considers whether the Amendments would not be contrary to the true and fair view principle.

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity of contributing to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity of advisor to the European Commission on endorsement of the definitive IFRS Accounting Standards in the European Union and European Economic Area.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS Accounting Standard or Interpretation against the technical criteria for European endorsement as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRS Accounting Standards or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

Does the accounting that results from the application of the Amendments meet the technical criteria for endorsement in the European Union?

1 EFRAG has considered whether the Amendments meet the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002 (the IAS Regulation); in other words, whether the Amendments:

(a) are not contrary to the principle set out in Article 4(3) of Council Directive 2013/34/EU (the Accounting Directive); and

(b) meet the criteria of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management.

2 Article 4(3) of the Accounting Directive provides that 'The annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. Where the application of this Directive would not be sufficient to give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss, such additional information as is necessary to comply with that requirement shall be given in the notes to the financial statements.'

3 The IAS Regulation further clarifies that 'to adopt an international accounting standard for application in the Community, it is necessary firstly that it meets the basic requirement of the aforementioned Council Directives, that is to say that its application results in a true and fair view of the financial position and performance of an enterprise – this principle being considered in the light of the said Council Directives without implying a strict conformity with each and every provision of this Directive' (Recital 9 of the IAS Regulation).

4 EFRAG's assessment as to whether the Amendments would not be contrary to the true and fair view principle has been performed against the European legal background summarised above.

5 In its assessment, EFRAG has considered the Amendments from the perspective of both usefulness for decision-making and assessing the stewardship of management. EFRAG has concluded that the information resulting from the application of the Amendments is appropriate both for making decisions and assessing the stewardship of management.

6 EFRAG's assessment on whether the Amendments are not contrary to the true and fair view principle set out in Article 4(3) of Council Directive 2013/34/EU is based on the assessment of whether it meets all other technical criteria and whether they lead to prudent accounting. EFRAG's assessment also includes assessing whether the Amendments do not interact negatively with other IFRS Accounting Standards and whether all necessary disclosures are required. Detailed assessments are included in this Appendix in the following paragraphs:

(a) relevance: paragraphs 7–15;

(b) reliability: paragraphs 16–23;

(c) comparability: paragraphs 24–31;

(d) understandability: paragraphs 32–40;

(e) on whether they overall lead to prudent accounting: paragraphs 41–44; and

(f) on whether they would not be contrary to the true and fair view principle: paragraphs 45–47.

Relevance

7 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations. Information is also relevant when it assists in evaluating the stewardship of management.

8 EFRAG considered whether the Amendments would result in the provision of relevant information – in other words, information that has predictive value, confirmatory value or both – or whether it would result in the omission of relevant information.

Own use exemption

9 It is reflected in IFRS 9 that measurement at fair value through profit or loss is not the most relevant measure if the purpose of a net settled contract is to buy a non-financial item for the entity's own use. Otherwise, a contract that is not intended for trading purposes would be accounted for in a way not consistent with the entity's risk management strategy resulting in volatility in the statement of profit or loss. If an entity's intention when entering into NDE contracts is to take delivery of electricity in accordance with the entity's expected usage requirements, we consider that the Amendments will enable entities to include information in their financial statements that more faithfully represents own-use NDE contracts. In addition, the Amendments require that an entity reassess on an ongoing basis whether NDE contracts are still for own use purposes by doing backward and forward-looking assessments.

10 Two IASB members disagreed with providing an exception from IFRS 9 for situations in which an entity enters into an NDE contract knowing upfront that some of its electricity purchases under the contract will be net-settled as this would not be consistent with the purpose of the receipt for the entity's expected usage. Furthermore, they noted that electricity contracts have been accounted for traditionally under the requirements in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 despite the differences between electricity and other non-financial items. In this regard, accounting for such electricity contracts has been accepted as relevant and representationally faithful.

11 Unlike other electricity contracts, NDE contracts expose an entity to variability in the underlying amount of electricity because the contract links the referenced or delivered electricity to the amount that is generated from a generation facility dependent on uncontrollable natural conditions (for example sun or wind). Nature-dependent uncontrollable amount not linked to own consumption distinguishes NDE contracts from other electricity contracts. Considering these properties and the general difficulty of storing electricity, EFRAG is of the view that the additional own use considerations for NDE contracts are justified.

12 The Amendments will also result in entities providing relevant information as they require entities to disclose information that has predictive and confirmatory value and that will help users in evaluating the stewardship of management:

a) *Predictive value.* Information that enables users to understand the effects that NDE contracts have on the amount, timing and uncertainty of an entity's future cash flows, such as the disclosure related to the estimated future cash flows from buying

electricity under NDE contracts, which results in information that has predictive value as users could predict future expense trends and evaluate the company's ability to meet its obligations. Moreover, qualitative information on how an entity assess whether a contract might become onerous, including the assumptions an entity uses in making the assessment, may also have predictive value as it will enable users to understand the risks of these contracts becoming onerous in the foreseeable future.

b) *Confirmatory value.* Information that enables users to understand the effects that these contracts have on the performance for the reporting period, such as the information that an entity uses to assess if it has been a net purchaser of electricity as well as information on the costs arising from the purchases of electricity made under the NDE contract, which have confirmatory value. This is because it helps users validate their previous expectations and assessment of an entity's financial performance.

c) *Evaluation of the stewardship of management.* Information on how much of the purchased electricity under the NDE contract was unused, the proceeds arising from sales of unused electricity and the costs of purchases of electricity to offset the sales of unused electricity will allow users to understand the amount of unused electricity purchased from the NDE contract and the financial effects of replacing such electricity. Furthermore, qualitative information on how an entity assesses whether a contract might become onerous, including the main assumptions, may allow users to better understand an entity's internal control processes and whether the underlying assumptions were realistic. These disclosure requirements may help users evaluate the stewardship of management.

Hedge accounting

13 An entity sometimes cannot decide to take either a contract to buy or sell nature-dependent electricity or a derivative contract referencing nature-dependent electricity as it depends on the characteristics of the electricity market. However, for an entity having access to a spot electricity market, the economic outcomes of both contracts are similar. For a seller, hedge accounting is normally only relevant for NDE contracts referencing nature-dependent electricity, as contracts to sell nature-dependent electricity will generally be exempted from the scope of IFRS 9 due to own use. From a seller's perspective, a NDE contract is most often considered the 'perfect hedging instrument' as the amount in the NDE contract is defined by the actual production of the seller. To allow a 'perfect hedging instrument' to be designated as a hedging instrument in a hedge of the amount in the hedging instrument will significantly improve the relevance of financial reporting reflecting such risk-management activities.

14 From a buyer's perspective, a NDE contract may often be the only long duration hedging instrument available. The entity' strategy is often to secure long term supply of renewable energy at a fixed price. For the amount in the NDE contract, this purpose may be achieved at the cost of increasing the volatility of the cash outflow related to the residual amounts to be consumed. Despite the effect on the residual amounts and similarly to the own-use exemption assessment, EFRAG considers that the Amendments will result in having information in the financial statements that more faithfully represents NDE-derivative contracts as it would align accounting with an entity's risk management strategy by allowing

entities to hedge the variable amount of electricity contracts and removing, therefore, volatility in the statement of profit or loss.

Conclusion

15 EFRAG's overall assessment is that the Amendments would result in the provision of relevant information and that they therefore satisfy the relevance criterion.

Reliability

16 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent and is complete within the bounds of materiality and cost.

17 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.

18 When assessing reliability, EFRAG noted that two IASB board members expressed their dissent with regard to the own-use exemption specific to the NDE contracts, as outlined in paragraph 10 within the section discussing the relevance criterion. These members considered that the current IFRS 9 requirement to measure a derivative contract at fair value through profit or loss would faithfully represent the NDE contracts considering the net-settlement of unused electricity. However, similar to the conclusion reached with regard to the relevance criterion and based on the same considerations, EFRAG assessed that an entity's intention to use the electricity for its own purposes is faithfully reflected in the Amendments. EFRAG further noted that, to reduce the risk of entities structuring transactions or contracts and to include adequate rigour within the Amendments, the IASB requires continuous forward- and backward-looking net-purchaser assessment and limits the reasonable time period to a 'typically short period' with a maximum of 12 months (paragraph BC2.18H of *Basis for Conclusions* on IFRS 9).

19 Moreover, considering that the NDE contracts are often of a long term (in some cases 25 years or longer)[2], the measurement of related fair value may be challenging, leading to potentially significant measurement uncertainty, as it would be based to a large extent on the assumptions used by management since there is limited data available for the relevant expected variable profile for such a long period of time. Further, the financial information required to be disclosed if an entity applies the own-use exemption as outlined by the Amendments will be entity-specific and, to a large extent, auditable and verifiable historical information except for the expected future amounts in the NDE contract. As such, this information will not be dependent upon market expectations of future market prices and timing of amount in the NDE contract, which would be the case for the fair value estimation. Therefore, overall, the valuation uncertainty in the financial statements is reduced by the fact that some contracts (i.e., NDE contracts fulfilling the own-use exemption requirements) are not measured at fair value.

[2] Paragraph 28 of 2023 June IFRIC paper *Application of the 'own use' exception in the light of current market and geopolitical questions (IFRS 9)*

20 With regard to the hedge accounting requirements, EFRAG considered the feedback received from the preparer community and incorporated it in EFRAG's comment letter on the IASB's Exposure Draft of the Amendments. Preparers of financial statements asked the IASB to clarify how an entity would assess whether future electricity purchases are highly probable considering the long duration of the contracts.

21 The IASB noted that paragraph 6.3.3 of IFRS 9 requires the hedged item to be highly probable. Generally, the more distant a forecast transaction is, the less likely it is to be considered highly probable. However, the IASB noted that entities that currently purchase and use electricity will continue to do so in the future. Therefore, in the absence of evidence to the contrary (for example, an entity is aware at the time of the assessment that electricity demand in one location will decline), an entity would expect its electricity purchases based on its past and current purchase practices to continue for the hedged term even if the hedged term extends far into the future. EFRAG notes that the implication of the general statement regarding current and future consumption of electricity and the wording in paragraph 2.3B is a topic to be considered in the forthcoming post implementation review of IFRS 9 Hedging.

22 The IASB confirmed that the assessment of whether future electricity purchases are highly probable applies equally to forecast sales and purchases. However, if a contract referencing nature-dependent electricity requires net settlement only when an entity buys or sells electricity, any or all of the entity's forecast transactions would be covered by the contract. Therefore, the IASB clarified that if cash flows under the contract referencing nature-dependent electricity can arise only when there is a hedged sale or purchase, such forecast transactions could be deemed highly probable by nature or by design of the hedging relationship.

23 Based on the considerations above, EFRAG's overall assessment is that the Amendments would result in the provision of reliable information and therefore satisfy the reliability criterion.

Comparability

24 The notion of comparability requires that like items and events be accounted for in a consistent way through time and by different entities and that unlike items and events be accounted for differently.

25 EFRAG has considered whether the Amendments result in transactions that are:

(a) economically similar being accounted for differently; or

(b) transactions that are economically different being accounted for as if they were similar.

26 The IFRS Interpretation Committee received a submission about the application of paragraph 2.4 of IFRS 9 to power purchase agreements. The submission described three fact patters for which two of them would likely be in the scope of the Amendments. Following an information request for standard setters, securities regulators and large accounting firms, respondents noted among other things that these fact patterns were common in Europe and that they observed diversity in practice with regard to how the own use requirements were applied to such contracts resulting in material effects on entities' financial statements. The additional guidance incorporated into the Amendments ensures that contracts having the

same features are assessed for own use purposes in a consistent manner resulting in consistent accounting across entities.

27 As indicated in paragraph 13 above, the economic outcomes of contracts to buy or sell nature-dependent electricity are similar to those of derivative contracts referencing nature-dependent electricity. In addition, in both cases the strategy is often to secure long-term supply of renewable energy at a fixed price. In many cases, the design and operation of the electricity market trigger the type of contracts that entities can enter into. Changes in the fair value of a derivative contract referencing nature-dependent electricity designated as a hedging instrument in a cash flow hedge relationship would, short of any hedging ineffectiveness, be presented in the statement of other comprehensive income. Therefore, the impacts in profit or loss for such contracts would be like a similar contract to buy or sell nature-dependent electricity that qualifies for own use purposes. This would result in increased comparability. If, however, a NDE contract to purchase electricity after the Amendments is excluded from the scope of IFRS 9 while at the same time hedge accounting is not applied for a similar derivative contract referencing nature-dependent electricity, then this would result in reduced comparability.

28 Some electricity contracts are not in the scope of the Amendments because they do not fulfil the conditions in paragraph 2.3A. Thus, an entity will not benefit from the additional guidance to assess whether such contracts are for own use purposes (i.e. it will only use the traditional 'own use' guidance included in paragraph 2.4 of IFRS 9). EFRAG agrees that other types of electricity contracts do not make use of the additional own use guidance because the amount of electricity in such contracts is not subject to the same uncertainty. For example, as indicated in paragraph BC2.17G of IFRS 9, contracts for electricity generated from biofuel would not be within the scope of the Amendments. Biofuel power plants can operate more like traditional fossil fuel plants because the source of electricity generation is controllable. Biofuel can be stored until used to generate electricity. These characteristics allow biofuel power plants to generate electricity on demand unlike, for example, wind power, which depends on uncontrollable natural conditions.

29 One IASB member opposed the hedge accounting amendments, arguing that they are unnecessary and narrowly target nature-dependent electricity contracts. He supports the current framework, noting it works as intended and aligns with the IFRS 9 principles-based approach. The hedging requirements in IFRS 9 will soon be subject to a post-implementation review. EFRAG agrees that other (non-)financial derivative contracts exposing an entity to amount variability could benefit from similar amendments. However, the current amendments are made in the context of a narrow-scope and time-sensitive project, which warrants the departure from the general guidance.

30 The Amendments provide additional guidance for an entity to assess if contracts referencing nature-dependent electricity are for own-use purposes. This will bring consistency in accounting for contracts in the scope of paragraph 2.3A of IFRS 9 and, therefore, will increase comparability among entities. In addition, to the extent that financial instruments referencing nature-dependent electricity are designated as hedging instruments in a hedging relationship and contracts to buy or sell nature-dependent electricity qualify for own-use purposes, comparability between contracts to buy or sell nature-dependent

electricity and derivative contracts referencing nature-dependent electricity will also increase in the statement of profit or loss.

31 EFRAG notes that the Amendments provide some clarification on how an entity might perform the highly probable assessment when applying hedge accounting. Specifically, the Amendments note that an entity may rely on the historical levels of the electricity consumption, unless there is contrary evidence. Although this appears to create an interpretation for the highly probable criterion that specifically relates to the electricity contracts, EFRAG views that any such incomparability may be justified given the specific nature of these contracts. Therefore, EFRAG's overall assessment is that the Amendments satisfy the comparability criterion.

Understandability

32 The notion of understandability requires that the financial information provided be readily understandable by users with reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence.

33 Although there are a number of aspects related to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability.

34 As a result, EFRAG believes that the main additional issue it needs to consider in assessing whether the information resulting from the application of the Amendments is understandable is whether that information will be unduly complex.

35 In making its assessment, EFRAG considered concerns raised by both preparers and users of financial statements in relation to the electricity generated by a hydropower plant. Whereas paragraph BC2.17D of IFRS 9 states that the nature-dependent variability of the electricity production is typically associated with renewable electricity sources such as sun and wind, those raising the concerns argue that it is not always clear whether the electricity generated by a hydropower plant will be in the scope of the Amendments.

36 EFRAG notes that the Amendments provide principles-based guidance, outlining the criteria an entity needs to consider when assessing whether an NDE contract is in the scope of the Amendments. Specifically, the Amendments state that a contract needs to expose an entity to variability in the amount of electricity because the source of electricity generation depends on uncontrollable natural conditions. As such, an entity would need to assess whether the hydropower plant has an ability to control the production of electricity thanks to, for example, the presence of a dam capable of taking out the variability in the inflow of water. If, due to the control of the water flow resulting from a sufficiently sized dam, the contract referencing a hydropower plant does not expose an entity to the variability in the amount of electricity produced due to nature-dependent conditions, the contract will not satisfy the criteria outlined in paragraph 2.3A of the Amendments, and an entity would apply the current guidance of paragraph 2.4 of IFRS 9. Therefore, EFRAG assessed that the issue raised by some stakeholders does not impair the understandability criterion, the Amendments providing clear principles-based scope requirements.

37 With regard to the own-use exemption requirements outlined in the Amendments, and specifically with respect to the assessment of the net-purchaser criterion, EFRAG notes some concerns related to the level of the assessment. Paragraph BC2.18I of IFRS 9 states that an

entity shall perform the net-purchaser assessment at the entity level as opposed to on a contract-by-contract basis. However, it is not clear if an entity needs to consider all of its purchases of electricity, albeit in the same electricity market, or only the purchases related to the contracts that are not in the scope of IFRS 9 (for example, excluding the electricity purchased under the contracts which are measured at fair value through profit or loss). EFRAG understands that the IASB's intention is that the net-purchaser assessment considers only the items relevant to the assessment of an entity's own usage vis-à-vis the executory contracts falling under the own-use exemption, both for NDE contracts and for the effects of non-NDE contracts. Similarly, EFRAG understands that the IASB's intention is not to taint all NDE contracts when the net-purchaser assessment fails at the entity level. For example, an entity having four NDE contracts within the same market accounted for as own-use should be able to enter into another NDE contract accounted for at fair value through profit or loss if the presence of this additional contract fails the net-purchaser assessment without compromising the net-purchaser assessment for the previous four contracts. However, EFRAG acknowledges that the stakeholders might find the application of this requirement relatively difficult to understand.

38 With regard to the disclosure requirements, the Board decided to develop new disclosure requirements for contracts for which the Amendments change the accounting. As such, there might be situations where an NDE contract is accounted for as an executory contract without the need to apply the Amendments. In this case, such a contract will be excluded from the additional disclosure requirements introduced by the Amendments. To allow users of financial statements to find all relevant information, the Amendments require that if an entity discloses information about its contracts referencing nature-dependent electricity in more than one note in its financial statements, the entity includes cross-references to those notes in the note in which the entity discloses the information required by paragraph 30A. This requirement allows users of financial statements to find information about contracts referencing nature-dependent electricity in a single note in the financial statements, thus facilitating the understandability of the financial statements.

39 EFRAG acknowledges, however, that some users raised concerns whereby the NDE contracts may represent only a sub-population of renewable electricity contracts an entity might enter into (for example, biomass excluded from the scope of the Amendments). The term 'renewable' has a broader meaning than the narrow-scope Amendments featuring NDE contracts as defined by paragraph 2.3A of IFRS 9. In users' view, if an entity communicates on its use of renewable electricity, such communication may include, but will not be limited to, the NDE contracts. They noted that it might be difficult to understand how various pieces of information interact with each other between the financial statements and other reports an entity might produce, for example management commentary or sustainability reports. EFRAG acknowledges the concern; however, it does not believe the assessment of the technical endorsement criteria specific to the financial statements is impacted by the information that might be produced outside of the financial statements.

40 Based on the considerations above, the Amendments do not introduce any significant complexity that may impair understandability. Therefore, EFRAG's overall assessment is that the Amendments satisfy the understandability criterion in all material respects.

Prudence

41 For the purposes of this endorsement advice, prudence is defined as caution in conditions of uncertainty. In some circumstances, prudence requires asymmetry in recognition such that assets or income are not overstated and liabilities or expenses are not understated.

42 The Amendments require an entity to disclose information about how it assesses whether a contract might become onerous, including the assumptions the entity uses in the assessment. This information enables investors to understand the risk of these contracts becoming onerous in the foreseeable future and increases certainty about the evolution of these contracts.

43 Moreover, the IASB members that disagreed with the Amendments were of the view that the further exception would lead to more lenient accounting than for other electricity contracts and contracts for other non-financial items. As indicated above, EFRAG considers that the Amendments would result in more relevant information. EFRAG is also of the view that any potential loss of information for investors that the removal of the fair value accounting method may cause would be adequately compensated by extensive disclosures. In addition, the Amendments require that an entity reassess on an ongoing basis whether NDE contracts are still for own use purposes by doing backward- and forward-looking assessments.

44 Based on all of the above, EFRAG has concluded that the application of the Amendments will lead to prudent accounting.

True and Fair View Principle

45 A Standard will not impede information from meeting the true and fair view principle when, on a stand-alone basis and in conjunction with other IFRS Accounting Standards, it:

(a) does not lead to unavoidable distortions or significant omissions in the representation of that entity's assets, liabilities, financial position and profit or loss; and

(b) includes all disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss.

46 EFRAG has assessed that the Amendments do not create any negative interactions with other IFRS Accounting Standards. Moreover, the Amendments explicitly state that an entity shall not apply paragraphs 6.10.1–6.10.2 and B2.7–B2.8 of IFRS 9 by analogy to other contracts, items or transactions. Accordingly, EFRAG has assessed that the Amendments do not lead to unavoidable distortions or significant omissions and therefore do not impede financial statements from providing a true and fair view.

47 EFRAG has concluded that the appropriate disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss are required.

As a result, EFRAG concludes that the application of the Amendments would not lead to information that would be contrary to the true and fair view principle.

Conclusion

48 Accordingly, for the reasons set out above, EFRAG's assessment is that the Amendments meet the technical requirements for EU endorsement as set out in the IAS Regulation.

Appendix 3: Assessing whether the Amendments are conducive to the European public good

Introduction

1 EFRAG considered whether it would be conducive to the European public good to endorse the Amendments. In addition to its assessment included in Appendix 2, EFRAG has considered a number of issues in order to identify any potential negative effects for the European economy on the application of the Amendments. In doing this, EFRAG considered:

(a) whether the Amendments improve financial reporting. This requires a comparison of the Amendments with the existing requirements and how they fit into IFRS Accounting Standards as a whole;

(c) the costs and benefits associated with the Amendments; and

(d) whether the Amendments could have an adverse effect on the European economy, including financial stability and economic growth.

2 These assessments allow EFRAG to draw a conclusion as to whether the Amendments are likely to be conducive to the European public good. If the assessment concludes there is a net benefit, the Amendments will be conducive to the objectives of the IAS Regulation.

EFRAG's evaluation of whether the Amendments are likely to improve the quality of financial reporting

3 The Amendments are the result of a submission to the IFRS Interpretation Committee and are designed to answer the application questions specific to the NDE contracts. Despite the fact that the IFRS IC received a request with regard to the application of paragraph 2.4 of IFRS 9 and the own-use exemption, the IASB decided to address the application issues related to both own-use exemption and hedge accounting of the physical and virtual NDE contracts. Indeed, the application challenges identified by the stakeholders for both the own-use exemption and hedge accounting were related to the specific characteristics of the NDE contracts – i.e. the variability of the supply of electricity generated from the nature-dependent uncontrollable source, leading to forced sales of unused electricity back to the market in order to keep the balance on the grid in the case of the own-use assessment and difficulty in identifying the hedged item in case of hedge accounting.

4 EFRAG notes that the Amendments are designed to faithfully reflect the economic consequences of the NDE contracts, both physical and virtual, to provide information that enables users to understand the effects these contracts have on the amount, timing and uncertainty of an entity's future cash flows and on its financial performance and to better align with risk management practices.

5 As it appears in Appendix 2, EFRAG assessed that the Amendments satisfy all necessary technical criteria by providing relevant, reliable, understandable and comparable information to the users, not being contrary to the true and fair view or prudent accounting principles.

6 EFRAG has therefore concluded that the Amendments are likely to improve the quality of financial reporting.

EFRAG's analysis of the costs and benefits of the Amendments

7 EFRAG first considered the extent of the work. For some Standards or Interpretations, it might be necessary to carry out some extensive work in order to fully understand the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of the Amendments, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work.

Cost for preparers

8 EFRAG has carried out an assessment of the cost implications for preparers resulting from the Amendments. The expected outcome of the Amendments is that more NDE contracts will benefit from the own-use exemption and more hedging relationships may be designated where NDE contracts are hedging instruments. The ability provided by the Amendments to account for qualifying NDE contracts as executory contracts removes the burden of calculating the fair value of such contracts at each reporting date and complying with specific disclosure requirements associated with the fair value measurement, thus significantly reducing the cost for preparers. However, additional disclosure requirements introduced by the Amendments offset to a certain degree this cost reduction. The additional disclosure requirements are limited to the NDE contracts whose accounting changes as a result of the Amendments (according to the paragraph BC39K of IFRS 7).

9 The IASB also considered the items of information to be disclosed focusing on the effects on entity's performance. EFRAG's stakeholders, both preparers and users, found that the disclosure requirements represented a balanced solution, providing useful information to the users of financial statements while minimising the additional burden on preparers. Preparers would still need to train the employees and to adjust the systems, processes and controls to gather the information necessary to comply with the disclosure requirements; however, the impact and cost will be correlated to the number of the NDE contracts and to the current system possibilities for relevant data collection.

10 After these implementation costs are absorbed, the ongoing costs are not expected to be significant. Indeed, the IASB provided a number of clarifications and provisions which are expected to reduce the ongoing costs for the preparers. For example, to assess whether an entity has been, and expected to be, a net purchaser of electricity, the IASB clarified that it did not intend to require an entity to make a detailed estimate of past, current and expected sales and purchases of electricity for all time intervals within the contract period. The IASB decided that its intention could be reflected using the phrase 'reasonable and supportable information (that is available without undue cost or effort)'.

11 Further, with regard to hedge accounting, EFRAG assesses that the hedge accounting is optional and that the Amendments offer an entity an opportunity to apply hedge accounting in situations where the hedged item is variable, thus improving the relevance of information. As such, the Amendments are not expected to result in additional costs for preparers resulting from hedge accounting.

12 In addition, the IASB clarified a number of application questions raised by preparers, specifically as it relates to the assessment of the highly probable criterion in light of the long contractual period and the measurement of the hedged item. The IASB clarified that in the absence of contrary evidence, an entity may base its forecasted electricity purchases on its past and current practices. Further, the IASB also noted that the entity may use already

available information in its assessment, for example, an entity entering into a long-dated contract referencing nature-dependent electricity has to make estimates and assumptions about its electricity purchases and therefore about its consumption over the contract period. An entity could use these estimates and assumptions in its assessment of whether future electricity purchases are highly probable.

13 For the application of the own-use exemption, the Amendments require an entity to apply the requirements retrospectively, though, without requiring an entity to restate comparative information (which is, however, permitted if it is possible to do so without the use of hindsight). The IASB initially proposed to permit early application of the requirements as soon as the Amendments were issued. However, respondents to the Exposure Draft questioned that approach and pointed out operational complexities as well as disadvantages for preparers who cannot contract physical delivery contracts. As a consequence, the IASB decided to limit early application to reporting periods beginning after the issue of the Amendments.

14 With regard to transition requirements for hedge accounting, the IASB recognised the difficulties caused by designating off-market hedging instruments in a new hedging relationship specific to these types of contracts which are very long-dated. Further, the IASB noted that the originally proposed permission to change the hedging relationship on a prospective basis could lead to operational complexities. Therefore, the IASB decided to permit an entity to discontinue a current hedging relationships to facilitate the designation of a new hedging relationship in accordance with the amendments in paragraphs 6.10.1–6.10.2 using the same hedging instrument.

15 Overall, EFRAG's assessment is that the Amendments are likely to reduce the costs for preparers by allowing the NDE contracts to be accounted for as executory contracts (alleviating the costs associated with the fair value measurement and disclosure at each reporting date) and by allowing for the alignment of the hedge accounting with the risk management of the company (aligning the amount assumptions between the hedge item and the hedging instrument, alleviating the need for calculating the ineffectiveness related to the amount/profile mismatch). These cost reductions are partially offset by additional disclosure requirements introduced by the Amendments; however, the information requested is expected to be available or would be available with minimal ongoing costs once the implementation occurred.

Costs for users

16 EFRAG has carried out an assessment of the cost implications for users resulting from the Amendments. The main costs identified are those of familiarising oneself with the Amendments, training of the employees and potential adjustments to the analytical documents and databases to incorporate additional information required to be disclosed by the Amendments. EFRAG noted some complexity associated with the Amendments when assessing the understandability criterion within Appendix 2 of this document, for example, the fact that the disclosure requirements are focused on the NDE contracts in the scope of the Amendments whose accounting is changed by the application of the Amendments; however, an entity might disclose additional information with regard to the NDE contracts or other renewable electricity (i.e. biomass) in management commentary or sustainability reports. EFRAG believes that this complexity will be alleviated as users progress through

their learning curve once the Amendments are implemented. The ongoing costs are expected to be minimal.

17 Overall, EFRAG's assessment is that the implementation of the Amendments will not result in increased costs for users.

Benefits for preparers and users

18 EFRAG has carried out an assessment of the benefits for users and preparers resulting from the Amendments, noting that the Amendments answer the application question raised to the IFRS IC regarding the clarification of the appropriate treatment of the NDE contracts, both physical and virtual. As outlined in Appendix 2 of this document, EFRAG assessed that the Amendments satisfy the technical endorsement criteria by providing relevant, reliable, understandable and comparable information to users, thus overall improving the quality of financial reporting.

19 As it relates to the own-use exemption, both preparers and users supported the requirements, noting that the Amendments faithfully represent the economic consequences of the transaction – i.e. the purchase of electricity of the own use by an entity while providing sufficient disclosures to allow users to estimate the effects of usually long-term NDE contracts on an entity's financial position, performance and cash flows and to assess associated risks.

20 Preparers of the financial statements pointed to the cost savings resulting from the Amendments, specifically the costs of the fair value measurement and related disclosures, which are alleviated when an NDE contract is accounted for as an executory contract. Users pointed to the benefits of having all relevant information presented in a single note and the improved financial information which is not impacted by the fair value fluctuations associated with the contracts should they have been accounted at fair value through profit or loss.

21 Similar benefits were identified in relation to the hedge accounting requirements, allowing for the faithful representation of the entity's risk management practices. The fact that the IASB addresses the issues associated with both physical and virtual NDE contracts improves comparability as economic outcomes of both types of contracts are similar and entities often do not have a choice between a physical or a virtual contract, the structure being determined by their access to the grid and market specificities.

22 Both preparers and users highlighted the benefit of a prompt solution provided by the IASB, reducing diversity in practice at the beginning of the emergence of the NDE contracts.

23 Overall, EFRAG's assessment is that preparers are likely to benefit from the Amendments, as they are likely to reduce the costs for preparers while allowing for better alignment of the financial information with the entity's practices.

24 EFRAG's assessment is that users are likely to benefit from the Amendments, as the information resulting from it will improve the quality of the financial reporting and, therefore, will enhance their analysis.

Other benefits of implementing the Amendments in the EU and EEA

25 As part of the commitment to reduce the effects of climate change, entities are increasingly entering into long-term NDE contracts. However, some purchasers of electricity may be

reluctant to enter into contracts for which accounting is not aligned with the purchaser's intention of securing renewable electricity for own use purposes as accounting for these contracts may result in volatility in the statement of financial performance. The Amendments overcome this issue as they align accounting with the purchaser's intention of securing renewable electricity for own use purposes or hedging the price of the electricity which is expected to be used and remove the volatility in the statement of financial performance.

26 By solving the issue, the Amendments contribute to the growth of the renewable electricity market, as more entities will be entering into renewable energy contracts knowing that they can faithfully reflect their effects on an entity's financial statements.

27 Considering the Amendments, EFRAG expect sellers of electricity to increase their interest in offering financial instruments referencing nature-dependent electricity as the sellers will now be able to utilise these as hedging instruments. Furthermore, EFRAG expects purchasers of electricity to increase their interest in entering into contracts to buy nature-dependent electricity and be the buyer in financial instruments that reference such electricity as these contracts to an increased extent will qualify for own use and as hedging instruments. EFRAG expects this to have a positive influence on the size of the overall market for nature-dependent electricity. As this market expands, sellers will have an incentive to bring new amounts of nature-dependent electricity to the European electricity market. The new disclosures will provide important information to users of the risk taken on by the purchasers of these contracts.

28 The behaviour and expectations described in paragraphs 26 and 27 could be expected to result in the development of additional renewable production facilities, which would contribute to the European Green Deal.

Conclusion

29 EFRAG believes that the Amendments will generally bring improved financial reporting when compared to current guidance. As such, their endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.

30 EFRAG has concluded that the benefits of the endorsement of the Amendments outweigh the costs involved.

31 EFRAG has not identified anything that indicates that the Amendments could have any adverse effect on the European economy, including financial stability and economic growth.

32 Furthermore, EFRAG has not identified any other factors that would mean endorsement is not conducive to the public good.