



Beyond the GAAP

Mazars' monthly newsletter on financial and sustainability reporting

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Editorial

In last month's issue, we looked at the three main topics covered by the draft amendments to IAS 32, IFRS 7 and IAS 1, as set out in the *Financial Instruments with Characteristics of Equity* ("FICE") exposure draft. In this issue, we present the IASB's proposals on the other seven topics, including contingent settlement provisions, shareholder decisions and reclassification of financial instruments between financial liabilities and equity instruments. These two feature articles provide our readers with a complete overview of the content of the exposure draft, for which the comment period ended on 29 March 2024.

The IASB's other current priorities include the draft amendments to IFRS 9 on renewable electricity purchase agreements (known as 'PPAs' or 'Power Purchase Agreements' and 'VPPAs' or 'Virtual PPAs'). At its March 2024 meeting, the IASB clarified the content of its future amendments for the first time. In this issue, we present the likely contents of the forthcoming exposure draft, which is scheduled for publication in May 2024, with a comment period of 90 days.

IFRS Highlights

IASB redeliberates on the Post-implementation Review (PiR) of IFRS 9, Phase 2 – Impairment

At the March 2024 meeting of the International Accounting Standards Board (IASB), the IASB continued with its redeliberations (see Beyond the GAAP no. 185, 2024) on the feedback received in response to its Request for Information on the PiR of IFRS 9, Phase 2 – Impairment (see Beyond the GAAP no. 179, 2023).

Incorporation of forward-looking scenarios in the measurement of expected credit losses (ECL)

Stakeholders particularly noted diversity in practice regarding:

- the number of scenarios used, and the weighting given to each when measuring ECLs; and
- the factors considered when choosing scenarios, particularly when a

significant degree of judgement is applied.

With this in mind, stakeholders suggested that the IASB should provide guidance with illustrative examples, in order to:

- clarify the objective of analysing forward-looking scenarios;
- reaffirm the need for preparers to consider, when applicable, the possible non-linear distribution of expected credit losses; and
- illustrate how climate-related risks should be taken into account in forward-looking analyses.

Despite these suggestions, the IASB decided not to take any further standard-setting action, based on the staff recommendation, which noted:

- that diversity in practice is the result of a principles-based approach that requires the use of judgement;
- that the cost of the standard-setting process required to introduce amendments to clarify the objective of

the requirements in IFRS 9 – *Financial Instruments* would outweigh the potential benefits, and could cause disruption to preparers’ existing practices; and

- that an illustrative example on considering climate-related risks could certainly be useful for users, but should be developed as part of the IASB’s project on *Climate-related and Other Uncertainties in the Financial Statements* (for more details see [here](#)).

Use of post-model adjustments

Stakeholders requested additional guidance on the use of post-model adjustments (PMAs) and disclosures in the notes, drawing the IASB’s attention to diversity in practice and a lack of transparency in the measurement of PMAs, as well as a tendency by some preparers to reallocate PMAs to cover new risks.

Despite this, the IASB decided not to take any further standard-setting action, based on the staff recommendation, which noted that the use of PMAs is consistent with the principles of the standard. However, the staff acknowledged a lack of transparency that could be addressed by improving disclosures in the notes, a point that will be considered in more detail in future IASB meetings.

Business Combinations – Disclosures, Goodwill and Impairment project: IASB publishes exposure draft

On 14 March 2024, the IASB published an exposure draft of proposed amendments to IFRS 3 – *Business Combinations* and IAS 36 – *Impairment of Assets*. The exposure draft is available [here](#).

The publication of the exposure draft follows the IASB’s decision in December 2022 to transfer the *Business Combinations*

– *Disclosures, Goodwill and Impairment* project from its research programme to its standard-setting programme.

Readers will remember that in March 2020, the IASB published a discussion paper proposing solutions to improve disclosures on business combinations and increase the effectiveness of impairment testing (see *Beyond the GAAP* no. 142, 2020). The proposals addressed the issues raised in the Post-implementation Review of IFRS 3. We published an in-depth analysis of the feedback to the discussion paper in *Beyond the GAAP* no. 158, 2021.

The comment period for the exposure draft runs until 15 July 2024.

We will publish a more in-depth feature article on the content of the exposure draft in a future issue.

Jurisdictional sustainability disclosure consultations update

The latest jurisdictional consultations on the adoption of IFRS Sustainability Disclosure Standards include:

- The Canadian Sustainability Standards Board (CSSB) has issued exposure drafts on 13 March 2024 of two Canadian Sustainability Standards, [CSDS 1 – General Requirements for Disclosure of Sustainability-related Financial Information](#) and [CSDS 2 – Climate-related Disclosures](#), which are based on the IFRS Sustainability Disclosure Standards along with a consultation on the [criteria used when modifying](#) the IFRS Sustainability Disclosure Standards to meet local sustainability-related disclosure requirements. Responses are due by 10 June 2024.
- [Singapore Exchange Regulation is consulting](#) on how the IFRS Sustainability Disclosure Standards are

to be incorporated into its existing climate-related disclosure requirements following recommendations made by the Sustainability Reporting Advisory Committee in February 2024.

Comments are due by 5 April 2024.

- Reserve Bank of India has published [Draft guidelines](#) for disclosure of climate related financial risks by financial institutions, with comments due by 30 April 2024.
- In Malaysia, consultation on [adoption of IFRS S1 and S2](#), with a proposition to introduce a mandatory reporting framework using IFRS S2 from December 2025 for main market issuers, closed on 29 March 2024.
- In China, three major stock exchanges (the [Shanghai Stock Exchange](#) (SSE), [Shenzhen Stock Exchange](#) (SZSE) and [Beijing Stock Exchange](#) (BSE)) issued consultation on guidelines for corporate sustainability reporting for large-cap companies and those listed on Chinese and international stock exchanges, with first reporting due for sustainability reports scheduled for 2026, for the 2025 financial period and the adoption of double materiality assessment.

ISSB March Meeting

The [ISSB update and podcast](#) are available on the IFRS Foundation website. The key focus of the March 2024 meeting was to discuss and agree the ISSB's strategic direction and work plan for the next two years. The main focus of the ISSB's work will be on supporting the implementation of IFRS S1 and S2, along with some work on enhancing the SASB standards and beginning new research and standard setting projects. The IFRS Sustainability Disclosure Taxonomy is on target to be published in April 2024.

European Highlights

ESMA publishes report on European enforcers' regulatory and enforcement activities for 2023

On 27 March 2024, ESMA published its annual report on its own activities and those of the European enforcers (available [here](#)).

The report provides an overview of the activities of ESMA and European enforcers in 2023, focusing particularly on compliance of financial and non-financial information published by issuers. It also provides an opportunity for ESMA to communicate key messages to issuers and auditors, with a view to continuous improvement of reporting.

European enforcers undertook 703 examinations (compared with 640 in 2022) to check compliance of financial information with the IFRS framework. This figure represents around 17% of all listed European issuers (compared with 16% in 2022). 250 of these examinations (compared with 225 in 2022) resulted in enforcement actions taken against issuers due to material departures from IFRS Accounting Standards, or an action rate of 37% (compared with 38% in 2022). ESMA noted that, as previously, the majority of shortcomings were in the areas of accounting for financial instruments, impairment of non-financial assets, presentation of financial statements and revenue recognition. Enforcers also carried out targeted examinations of the financial statements of 173 issuers to assess the extent to which they considered ESMA's European Common Enforcement Priorities Statement for 2022 annual financial reports. Enforcement actions were taken against 12 of these issuers.

As regards non-financial reporting prepared in accordance with articles 19a and 29a of

the Accounting Directive (as amended by the Non-Financial Reporting Directive), European enforcers carried out 389 examinations (compared with 333 in 2022), representing 17% of the estimated total number of issuers required to publish this information (compared with 15% in 2022). Of these, 91 resulted in action (compared with 87 in 2022), equivalent to 23% of the sample (compared with 26% in 2022). ESMA also reports that enforcers carried out 127 targeted examinations of non-financial statements to assess the extent to which issuers considered ESMA's European Common Enforcement Priorities Statement for 2022 annual financial reports. Enforcement actions were taken against 23 of these issuers and 18 examinations are still ongoing.

Finally, ESMA gives details of examinations of European Single Electronic Format (ESEF) reporting. Enforcers carried out 3,277 high-level examinations (basic requirements applicable to all issuers) and 1,483 detailed examinations (primarily focused on tagging and anchoring requirements).

EFRAG publishes second set of Q&As on implementation of ESRS

On 1 March 2024, EFRAG (the European Financial Reporting Advisory Group, technical advisor to the European Commission (EC)) posted a second set of Q&As (available [here](#)) on the implementation of the European Sustainability Reporting Standards (ESRS), in conjunction with the [Q&A Platform](#), launched at the end of last year (see Beyond the GAAP no. 181, 2023).

For each question, EFRAG provides references to and extracts from the standards on which its explanations are based, to guide the reader. EFRAG intends to publish responses on a regular basis, to

provide ongoing support to preparers and other stakeholders with the implementation of ESRS.

Of the 12 questions addressed in this second batch, six relate to social standards, four to cross-cutting standards, one to the environmental standard ESRS E1 – *Climate change*, and one to the scope of ESRS reporting.

As of 13 March 2024, 367 questions had been submitted to EFRAG via the dedicated platform, and the following trends had been identified:

- categories: 150 questions require an explanation, in a Q&A format (draft explanations from EFRAG are not open for public comment);
- subjects addressed: these questions mainly concern cross-cutting standards (34%), environmental standards (27%), social standards (19%) and the governance standard (3%); the remainder address other topics, such as XBRL tagging (17%).

These trends are similar to those identified by EFRAG on publication of the first batch of answers (see Beyond the GAAP no. 185, 2024).

EFRAG updates its work plan deadlines

At a webinar organised on 14 March 2024 with the Japanese Sustainability Standards Board, EFRAG announced that it had revised some of the deadlines in its 2024 work plan, published in October 2023 (see Beyond the GAAP no. 181, 2023). These relate in particular to the postponement to 30 June 2026 of the EC's adoption of the sector-specific ESRS and ESRS for non-EU groups (see Beyond the GAAP no. 184, 2024).

The revised deadlines and the associated works are as follows:

- by the end of the first half of 2024:
 - publication of the final versions of the implementation guidance (IG) on the materiality assessment, the value chain and the list of datapoints deriving from ESRS Set 1, following consideration of the feedback received from the public consultations launched in December 2023 (see Beyond the GAAP no. 183, 2023/2024). Redeliberations on the implementation guidance began on 20 March 2024; and
 - finalisation of the mapping table showing interoperability between ESRS and the ISSB's IFRS Sustainability Standards;
- in the second half of 2024:
 - finalisation of the draft XBRL taxonomies applicable to information arising from both ESRS Set 1 and Article 8 of the Regulation (EU) 2020/852 on the taxonomy of sustainable economic activities (see Beyond the GAAP no. 185, 2024, for the related public consultation);
 - publication of four exposure drafts relating to (i) the ESRS sector classification approach standard and the standard covering the general approach to sector-specific ESRS (SEC 1 and SEC 2 respectively); and (ii) the first draft ESRS covering the *Oil & Gas* and *Mining, Quarrying and Coal* sectors; and
 - publication of technical advice on the mandatory ESRS for listed SMEs and the voluntary standard for non-listed SMEs and micro-enterprises (see Beyond the GAAP no. 184, 2024 for details of

the related public consultation). The technical advice on the ESRS for listed SMEs must be submitted to the EC by end-2024 at the latest, for adoption in June 2025;

- during 2025, publication of multiple exposure drafts over the year:
 - nine draft ESRS relating to other high-impact sectors – (1) *Road Transportation*; (2) *Textile*; (3) *Motor Vehicles*; (4) *Agriculture, Farming & Fishing*; (5) *Food & Beverage*; and (6) *Energy Production & Utilities* – and to the financial sector – (7) *Banking*; (8) *Capital Markets*; and (9) *Insurance*; and
 - the draft ESRS for non-EU groups.

In this context, readers will remember that EFRAG's technical advice on (i) the sector-specific standards and (ii) the standards for non-EU groups must be submitted to the EC by November 2025 at the latest, given that the deadline for adoption is June 2026. However, the European Parliament has encouraged the EC to publish sector-specific standards as soon as they are ready, to respond to market demand.

Meanwhile, EFRAG is also planning to (i) develop new implementation guidance to support the implementation of the ESRS, including a guidance on climate-related transition plans expected during 2024; (ii) continue to respond to technical questions from stakeholders on the first set of ESRSs (see previous article in this issue); and lastly (iii) complete its work on interoperability between ESRS and other standards and frameworks, such as the GRI (Global Reporting Initiative) standards and the TNFD (Task Force on Nature-related Financial Disclosures) recommendations.

Proposed amendments to IAS 32, IFRS 7 and IAS 1 (FICE project): part two

In the first part of this feature article (see Beyond the GAAP no. 185, 2024), we looked in detail at the first three exposure draft topics. In this issue, we will set out the IASB's proposals on the other topics.

Background: a reminder

On 29 November 2023, the IASB published an exposure draft (available [here](#)) of proposed amendments to IAS 32 – *Financial Instruments: Presentation*, IFRS 7 – *Financial Instruments: Disclosures* and IAS 1 – *Presentation of Financial Statements* on the classification of financial instruments with characteristics of equity. The comment period ended on 29 March 2024.

The amendments aim to clarify some of the principles governing whether financial instruments should be classified as financial liabilities or equity, and thus resolve some of the implementation issues identified by the IASB. However, the fundamental principles of IAS 32 will remain unchanged. The proposed amendments in the exposure draft can be grouped into ten topics, as follows:

1. how rights and obligations arising from laws or regulations should be taken into account when classifying the instrument;
2. accounting for instruments that are settled in an entity's own equity instruments, and in particular how to assess whether the 'fixed-for-fixed' condition is met in the case of derivatives;
3. accounting for obligations for an entity to purchase its own equity instruments

(particularly written put options on non-controlling interests);

4. contingent settlement provisions, and in particular how these should be taken into account when measuring the liability component of a compound instrument;
5. the factors to be taken into account to determine whether a shareholder decision should be treated as a company decision or a third-party investors' decision, when this decision obliges the issuer to make a settlement in cash or by delivering another financial asset;
6. the rules on reclassification of financial instruments between financial liabilities and equity instruments;
7. disclosures on financial instruments with characteristics of equity;
8. the introduction of new rules under IAS 1 that will require an entity to separately present the portion of equity and income that is attributable to ordinary shareholders;
9. the transition requirements for these amendments; and
10. reduced disclosures to be provided by subsidiaries that are covered by the future *Subsidiaries without Public Accountability: Disclosures* standard.

Contingent settlement provisions

Financial instruments can include provisions that require the delivery of cash or another financial asset on the occurrence of uncertain future events, which are beyond the control of both the issuer and holder of the instrument. Paragraph 25 of IAS 32 gives the following examples of such events: changes in a stock market index, consumer price index, interest rate or taxation requirements, or the issuer's future

revenues, net income or debt-to-equity ratio.

IAS 32 states that, if the issuer does not have an unconditional right to avoid delivering cash or another financial asset, it should classify the instrument as a financial liability, unless:

- the provision is 'not genuine'. A settlement provision is deemed to be 'not genuine' if it would apply only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur;
- settlement is only required in the event of liquidation of the issuer; or
- the instrument issued by the entity can be presented as equity in its financial statements, even though it does not meet the usual definition of equity (so-called puttable instruments, cf. paragraphs 16A and 16B of the standard).

The IASB is planning to make the following clarifications on this topic:

- financial instruments with contingent settlement provisions may be classified as compound instruments, comprising an equity component and a debt component;
- the liability arising from a contingent settlement provision shall be measured (both initially and subsequently) without taking account of the probability and estimated timing of the contingent event occurring – as when an entity is measuring the liability arising from an obligation to purchase its own equity instruments. It shall be measured at its present value, assuming that the settlement will occur at the earliest possible contractually permitted date;

- in the case of compound instruments, payments at the issuer's discretion are recognised in equity, even if the equity component is initially recognised at a carrying amount of zero;
- the term 'liquidation' is defined as "the process that begins after a company has permanently ceased its operations"; and
- assessing whether a contingent settlement provision is not genuine requires the use of judgement, based on the specific facts and circumstances and not based solely on the probability of the contingent event occurring. In its Basis for Conclusions, the IASB specifies that a contingent settlement provision may be included for commercial, regulatory or tax reasons, and that a contingent event may be deemed to be genuine even if it is very unlikely to occur, if it is neither extremely rare nor highly abnormal. An example of this is a 'regulatory change' provision included in an instrument issued by a bank, which requires settlement in cash in the event of a regulatory change that means the instrument may no longer be classified as regulatory capital. Although such a change is very unlikely at the point of initial recognition of the instrument, the purpose of the provision is to ensure that the bank maintains a sufficient amount of regulatory capital, and may thus be treated as genuine.

Shareholder decisions

Usually, a financial instrument is classified as equity if the entity has an unconditional right to avoid delivering cash to a third party in order to settle the instrument. With this in mind, the IASB considered the status of shareholder decisions that require the entity to deliver cash, such as a dividend

distribution or share buyback. The question is whether these decisions should be treated as company decisions, or as decisions made by external third parties who are acting in their own interests as investors.

The IASB is proposing that multiple factors should be considered when addressing this question. These factors are as follows:

- whether the decision is routine in nature, i.e. whether it is made in the ordinary course of the entity's business activities in accordance with its operational and governance procedures. The IASB gave the following rationale for including this factor:
 - routine decisions typically include decisions on recurring items on the entity's annual general meeting agenda, relating to ordinary year-on-year business matters and usually requiring the approval of a simple majority of shareholders present at the meeting; and
 - conversely, they do not include decisions such as changing the entity's founding documents or approving a change of control of the entity, which would require a separate extraordinary general meeting and a higher level of approval (e.g. 75%).
- whether the decision arises directly from an action proposed by the entity's management;
- whether different classes of shareholders (such as preference shareholders) are affected differently by the shareholder decision; and
- whether the shareholder decision would provide the shareholders with a

guaranteed return on their investment or right to its repayment.

This list of factors is not exhaustive and would be intended only to help entities to use their judgement on the specific facts and circumstances of the case. The IASB also acknowledges that the weighting of the various factors would also differ depending on the specific facts and circumstances.

Reclassification

IAS 32.15 requires the issuer of a financial instrument to classify it as a liability or equity on initial recognition. However, the standard does not currently specify whether instruments can be reclassified over their lifetime. Practical questions have arisen as to whether and when reclassifications are required, permitted or prohibited, and how to account for such reclassifications.

Such issues commonly arise when the substance of a contractual arrangement changes but there are no changes to its contractual terms, e.g. in the event of a change in circumstances external to the arrangement.

The IASB is thus proposing:

- to add a reminder that the general principle is that financial instruments should not be reclassified after initial recognition. Thus, the IASB would prohibit any reclassification arising from a change in the substance of a contractual arrangement as a result of a contractual term that was included from the outset and that became or ceased to be effective simply as a result of the passage of time. An example of this would be the expiry of an option to convert a convertible instrument into a variable number of shares;
- to permit an exception to this principle if the substance of the contractual arrangement changes due to a change

in circumstances external to the arrangement. This is in addition to the exception already permitted under IAS 32 paragraph 16E for puttable instruments and instruments issued by limited life entities (IAS 32 paragraphs. 16A-16D); and

- to provide examples of changes in circumstances external to the contractual arrangement, such as:
 - a change in the functional currency of the issuing entity; and
 - a change in the structure of the consolidated group due to the acquisition of an entity. Thus, the issued financial instrument, which was initially classified as a liability, would be reclassified to equity at the date of the change in functional currency or the acquisition date.

In practice, the instrument would be reclassified prospectively from the date when the change in circumstances occurred, and would be accounted for as follows:

- a financial liability reclassified from equity would be measured at its fair value at the date of reclassification, and any difference from the carrying amount of the instrument would be recognised in equity; and
- an equity instrument reclassified from financial liabilities would be measured at the carrying amount of the financial liability at the date of reclassification, with no impact on profit or loss.

These accounting principles are the same as those that already apply to the reclassification of puttable instruments and instruments issued by limited life entities (cf. IAS 32 paragraph 16F).

In the Basis for Conclusions, the IASB has also provided some conceptual clarifications on the difference between derecognition and reclassification. Thus, reclassification of a financial instrument refers to a situation in which:

- the conditions for derecognition of the financial instrument are not met and the instrument continues to exist;
- the entity has not become a party to a new contract; or
- the nature of the obligation has changed substantially, but with no modification to the contractual terms.

Conversely, the IASB is proposing to change the wording to clarify that, if a contract containing an obligation for an entity to purchase its own equity instruments expires without the holder exercising the option, this is not a 'reclassification' from liabilities to equity, but rather the derecognition of the liability and recognition of an equity instrument.

Disclosures

In light of the concerns raised by shareholders (notably in response to the 2018 FICE Discussion Paper) that disclosures on financial instruments with characteristics of equity are insufficient, the IASB is proposing to expand the scope of IFRS 7 to include this type of financial instruments.

To help users of financial statements to understand how an entity is financed and what its ownership structure is, the IASB is proposing to add new disclosure requirements on different types of issued instruments and their characteristics, as follows:

- issued instruments that are reclassified between liabilities and equity following a change in the substance of the

contractual arrangement due to a change in circumstances external to the arrangement;

- financial liabilities that contain contractual obligations to pay amounts based on the entity's performance or changes in its net assets;
- compound financial instruments; and
- the entity's financing structure.

Financial instruments reclassified between financial liabilities and equity

If a financial instrument is reclassified in accordance with the conditions set out above, the entity must state the amounts reclassified, the date and the reasons for the reclassification.

Financial liabilities that contain contractual obligations to pay amounts based on the entity's performance or changes in its net assets

The IASB is proposing that an entity that has issued such financial liabilities (measured at fair value through profit or loss) should, for each reporting period, present the gain or loss on remeasurement of these liabilities separately from the gain or loss on other financial liabilities.

The purpose of these requirements is to identify the impact – which some stakeholders feel to be counter-intuitive – of profits recognised in the event of a decline in the entity's performance, or losses if performance improves.

Compound financial instruments

The IASB is proposing that an entity should present the following disclosures on instruments that include both a liability component and an equity component:

- the terms and conditions of the instrument that determined its classification on initial recognition; and

- the amounts allocated to each component of the instrument at initial recognition.

Other disclosures

The IASB has also proposed additional disclosures on the following topics:

The nature and priority of claims against the entity on liquidation arising from financial instruments (whether classified as financial liabilities or equity)

The entity must disclose the carrying amount of each class of claims arising from these financial instruments, as well as the balance sheet line items in which these amounts are included.

The claims shall be grouped into classes based on their contractual characteristics and priority in the event of liquidation. The proposed amendments would require entities to distinguish, at a minimum, between:

- secured and unsecured claims;
- subordinated and unsubordinated claims;
- financial liabilities and equity instruments issued by the parent company; and
- financial liabilities issued by subsidiaries and non-controlling interest in those subsidiaries.

Non-compound financial instruments with both financial liability and equity characteristics

These may be characteristics used to determine the classification of these financial instruments as liabilities or equity instruments; or they may be characteristics that do not determine the classification but that are deemed useful to understanding the nature of the instruments – i.e. 'debt-like' characteristics of an instrument classified as an equity instrument, or

'equity-like' characteristics of an instrument classified as a financial liability. For example:

- instruments classified as equity but with debt-like characteristics, such as i) contractual interest based on a market rate, which cannot be paid until dividends have been paid; ii) clauses that provide an economic incentive for the issuer to redeem (such as 'step-up' clauses); and
- instruments classified as liabilities but with equity-like characteristics, such as i) a provision for settlement of the instrument in a variable number of the entity's own equity instruments, or ii) a clause requiring the issuer to deliver an amount based on its financial performance or net asset value.

The entity would be required to disclose quantitative and qualitative information on these characteristics to allow users to understand their impact on the nature, amount, timing and uncertainty of its cash flows.

Priority of these instruments on liquidation

In addition to any clauses that specify priority, entities should present disclosures on:

- the contractual subordination of the instruments, if it differs from other financial instruments in the same class;
- any significant uncertainty regarding laws or regulations that could affect the priority of these instruments on liquidation; and
- a description of any intra-group agreement, such as a guarantee provided by a parent company to a subsidiary, that could affect the priority of these instruments on liquidation.

Terms and conditions that become or cease to be effective with the passage of time

Including those for financial liabilities that are standalone derivatives.

Potential dilution of ordinary shares

Entities should disclose, in tabular format:

- the maximum number of additional ordinary shares that the entity might be required to deliver for each class of potential ordinary shares outstanding at the end of the reporting period;
- a description of contracts or other commitments to repurchase ordinary shares, and the minimum number of each class of ordinary shares an entity is required to repurchase;
- an explanation of any significant change in the two amounts above compared with the previous period; and
- a description of the terms and conditions of the instrument that are relevant to understanding the probability of maximum dilution (including where relevant a cross-reference to disclosures under IFRS 2 – *Share-based Payment*).

Financial instruments that include an obligation for an entity to purchase its own equity instruments

Entities should disclose:

- the amount transferred from equity to financial liabilities on initial recognition of the obligation, and the component of equity from which it was removed;
- the amount of remeasurement gain or loss on the obligation recognised in profit or loss during the reporting period;
- the amount recognised in profit or loss if the obligation was settled during the reporting period;
- the amount transferred back from financial liabilities to equity if the

obligation has expired without being exercised during the reporting period; and

- transfers within equity of amounts related to the obligation during the reporting period, and the components of equity from and to which these were transferred.

Presentation of amounts attributable to ordinary shareholders

In addition to the amendments to IFRS 7, the IASB is also proposing to amend IAS 1 to distinguish between amounts attributable to ordinary shareholders and amounts attributable to other owners of the parent, for the following components of the financial statements:

- issued share capital and reserves in the statement of financial position;
- profit or loss and other comprehensive income;
- components of equity included in the statement of changes in equity; and
- dividends paid and the corresponding dividends per share.

Transition requirements

The IASB is proposing to apply the proposed amendments retrospectively, with restatement of comparative information (a fully retrospective approach).

However, to reduce implementation costs, the IASB is proposing to only require the restatement of information for one comparative period, even if the entity presents more than one period in its financial statements.

The IASB is also proposing the following transition requirements for entities that already apply IFRS Accounting Standards:

- on remeasurement of a financial liability, an entity should use the fair value at the

start of the first comparative period presented as the amortised cost of the financial liability, if it is impracticable to apply the effective interest rate method retrospectively;

- an entity is not required to separate the liability and equity components, if the liability component of a compound financial instrument with a contingent settlement provision is no longer outstanding at the date of initial application of the amendment;
- an entity must disclose the nature and amounts related to any change in the classification of financial instruments (from liabilities to equity or vice versa) resulting from initial application of the amendments;
- an entity is not required to present the quantitative disclosures required by IAS 8.28(f) (i.e. the amounts of adjustments related to the amendments for each line item in the financial statements, for basic and diluted earnings per share as defined in IAS 33); and
- the IASB will not stipulate transition requirements specific to IAS 34 – *Interim Financial Reporting* for interim financial statements published in the first year the amendments are applied.

The IASB decided not to specify additional transition requirements for entities adopting IFRS Accounting Standards for the first time.

Disclosure requirements for eligible subsidiaries

The IASB is proposing to make changes to the draft of the future standard '*Subsidiaries without Public Accountability: Disclosures*', allowing eligible subsidiaries to apply the IASB's proposed amendments to recognition, measurement and presentation

while proposing a reduced scope of disclosures. The appropriate disclosures will mainly include:

- separate presentation of gains and losses on financial liabilities containing contractual obligations to pay amounts based on an entity's performance or changes in its net assets;
- the nature and priority of claims on liquidation arising from financial liabilities and equity instruments;
- information relating to instruments with both financial liability and equity characteristics (main contractual features, order of priority in the event of liquidation);
- terms and conditions that become or cease to be effective with the passage of time;
- information relating to the entity's obligations to repurchase its own equity instruments; and
- significant judgements made in determining the classification of financial instruments issued.

Renewable Power Purchase Agreements (PPAs and VPPAs): what we can expect from the future exposure draft

Against a backdrop of accelerating energy transition and increasing reliance on renewable electricity purchase agreements (known as 'PPAs' or 'Power Purchase Agreements' and 'VPPAs' or 'Virtual PPAs'), the IASB had confirmed, during its December 2023 meeting, its intention to amend IFRS 9 – *Financial Instruments* to clarify their accounting treatment (see Beyond the GAAP no. 183, 2023/2024).

This meeting followed up on the work carried out by the IASB staff since July 2023 (see Beyond the GAAP no. 179, 2023) which had set the orientations for these future amendments.

At its March 2024 meeting, the IASB clarified the content of its future amendments for the first time.

Scope

The IASB tentatively decided to limit the scope of the future amendments to contracts for renewable electricity that are contracts for which:

- production of the renewable electricity is nature-dependent;
- production is subject to a 'risk of intermittency', i.e. it cannot be guaranteed for given volumes over set periods; and
- this risk is transferred from the producer to the purchaser through pay-as-produced features in the contract. The purchaser therefore bears the risk that the volume of electricity produced does not correspond to its consumption

needs at the time of delivery ('volume risk').

According to the staff paper, these features would be met, for example, by renewable electricity from wind or solar power, but not by electricity from hydroelectric power or biomass. The staff paper also clarifies that Renewable Energy Certificates will be excluded from the scope of the future amendments and will be addressed as part of the IASB's future project on Pollutant Pricing Mechanisms.

Own-use classification

The IASB has tentatively decided that, within this scope, classification as 'own use' from the buyer's point of view would be subject to compliance with the following two conditions:

- the volumes of renewable electricity remaining to be delivered during the residual term of the contract correspond to the purchaser's expected usage requirements; and
- the existence of any past or future sales of renewable electricity by the consumer does not undermine this analysis, given their nature, provided that:
 - the sale arises from a temporary mismatch between production and consumption;
 - the design and operation of the market are such that the entity cannot determine the timing or price of such sales; and
 - the sale is offset by the purchase of an equivalent volume within a reasonable time.

If any of these conditions were not met, the PPA contract would not be eligible to qualify as 'own use'. It would then be accounted for as a derivative.

Hedge accounting

The IASB's tentative decisions on proposed amendments to hedge accounting relate to the definition of the hedged item. These amendments would apply:

- only to the requirements in IFRS 9 – *Financial Instruments*, and not to those in IAS 39 – *Financial Instruments: Recognition and Measurement*, which can still be applied to this particular topic;
- to a cash flow hedging relationship; and
- to hedging relationships where the hedging instrument is:
 - a renewable electricity contract within the scope defined above;
 - classified as a derivative, because it corresponds either to a virtual PPA ('VPPA') or to a physical PPA contract that does not qualify as own use ('failed own use'); and
 - whose notional volume is variable due to the risk of intermittency.

At its March 2024 meeting, the IASB tentatively decided that, in a hedging relationship of this type, the hedged item can be defined as having a variable notional amount if the following conditions are met:

- the volume of the hedged item is specified as a proportion of the hedging instrument's variable volume;
- the hedged item is measured using the same volume assumptions used for the hedging instrument. However, the other measurement criteria for the hedged item, such as price or frequency, reflect the nature of the hedged item and do not impute the features of the hedging instrument; and

- in terms of hedged items (sales or purchases of renewable electricity):
 - for purchasers: the volumes defined as hedged items must be 'highly probable' to be less than their consumption requirements over the residual term of the contract; and
 - for sellers: the volumes defined as hedged items are by nature equal to the volumes underlying the hedging instrument. Therefore application of the 'highly probable' definition is not relevant.

The effect of this approach, if confirmed in the future amendment, would be:

- to introduce an exception to the principle of hedge accounting, as explained in the concept of a hypothetical derivative in paragraph B6.5.5 of IFRS 9; in practice this principle prohibits the replication on the hedged item of features that only exist in the hedging instrument and not in the hedged item, as is the case here for the variable volume of renewable electricity produced by the facility; and
- to render obsolete the March 2019 agenda decision on Load Following Swaps (referred to in paragraph 6.3.3. of IFRS 9), which reaffirms the prohibition on designating as a hedged item an exposure with a variable notional amount, due to the constraints imposed by the application of the concept of 'highly probable', as well as by the prohibition on replication of the hedging instrument referred to above.

General disclosures

The IASB tentatively decided to propose setting specific disclosure objectives to enable users of financial statements to assess the effects of contracts for renewable electricity on:

- the entity's financial performance; and
- the amount, timing and uncertainty of the entity's future cash flows.

The IASB also tentatively decided to propose that an entity be required to disclose, for all its contracts for renewable electricity:

- the terms and conditions of contracts, such as contract duration, type of pricing (including whether they include price adjustment clauses), minimum or maximum quantities to be delivered, cancellation clauses and whether they include Renewable Energy Credits (RECs);
- the net volume purchased or the total volume for which amounts were net-settled (i.e. resold) for the reporting period, and an explanation of any significant variances in the volume compared with the previous period;
- the average market price per unit of electricity for the reporting period; and
- either the fair value of the contracts at the reporting date accompanied by the information required by paragraph 93(g)–(h) of IFRS 13 – *Fair Value Measurement*¹, or:
 - the volume of renewable electricity the entity expects to sell or purchase over the remaining duration of the contracts, for different maturities (not later than one year; later than one year and not later than five years; and later than five years); and
 - the methods and underlying assumptions used in preparing these disclosures, including information about changes in those

methods and assumptions from the previous period and the reasons for such changes.

Disclosures for entities applying the future IFRS Accounting Standard *Subsidiaries without Public Accountability*

The IASB tentatively decided to propose that the specific disclosures for entities applying the forthcoming IFRS Accounting Standard *Subsidiaries without Public Accountability* be substantially identical to the ones abovementioned with reference to the forthcoming subsidiaries standard for assets and liabilities measured as Level 3 fair value measurement instead of IFRS 13 for the disclosure on fair value of the contracts.

Transition

The IASB tentatively decided to propose that an entity be required to apply the proposed amendments:

- retrospectively for own-use requirements, in accordance with IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*, but not to require the entity to restate prior periods to reflect the application of the proposed amendments; and
- prospectively for the hedge accounting amendments. However, during the period of first application, the entity would be permitted to alter the designation of hedged items in already-designated cash flow hedging relationships. Such alterations would not discontinue the hedging relationship.

The IASB also tentatively decided:

inputs, if a change in those inputs to a different amount might result in a significant change in fair value measurement (IFRS 13.93(h)(i))

¹ That is, for Level 3 fair value measurements, a description of (a) the valuation processes used by the entity (IFRS 13.93(g)) and (b) the sensitivity of the fair value measurement to changes in unobservable

- to exempt an entity from disclosing, for the current period and for each prior period presented, the quantitative information required by paragraph 28(f) of IAS 8;
- to permit early application of the proposed amendments from the date the final amendments are published, provided that this is disclosed; and
- to provide no transition relief for first-time adopters.

Due process

Two IASB members indicated an intention to dissent from the proposals.

The IASB expects to publish the exposure draft in May 2024, with an expected 90-day comment period.

Contact us

Dingeman Manschot, Partner, Mazars
dingeman.manschot@mazars.nl

Inge van Sloun, Director, Mazars
inge.vansloun@mazars.nl

Renick van Oosterbosch, Director, Mazars
renick.vanoosterbosch@mazars.nl

Edouard Fossat, Partner, Mazars
edouard.fossat@mazars.fr

Contributors to this issue:

Colette Fiard, Vincent Gilles, Clémence Lordez,
Nicolas Millot, Laura Niewiadomskyj, Nicolas
Piatkowski, Pierre Savu, Arnaud Verchère and
Paul Winrow

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[1] Where permitted under applicable country laws

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