



**Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)**

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Re: EFRAG DCL on the IASB ED Contracts for Renewable Electricity – Proposed amendments to IFRS 9 and IFRS 7

Dear Wolf,

We are pleased to have the opportunity to provide our comments on the EFRAG DCL on IASB's Exposure Draft *Contracts for Renewable Electricity*, issued by the IASB in May 2024 (the 'ED').

We support the IASB's proposals included in the ED, because they promptly address the accounting for contracts that due to the European Green Deal regulation should become increasingly common in practice.

The following are some comments and suggestions on the IASB's proposals.

Scope

We support the narrow scope of the proposed amendments.

In our understanding, the scope of the ED seems to be limited to *pay-as-produced* contracts which are actually the most widespread. However, we acknowledge that other types of contracts, such as *baseload* contracts, are present on the market. Such contracts appear to be excluded from the scope of the ED, because according to paragraph 6.10.1b of the ED the IASB proposals apply only to contracts that expose the purchaser to substantially all the volume risk under the contract through '*pay-as-produced*' features.

We suggest the IASB to clarify whether this reading is confirmed.

We also suggest the IASB to evaluate, during the forthcoming PIR of IFRS 9 Hedge accounting, whether to extend the guidance provided in the ED on both own-use exception

and hedge accounting requirements to other contracts for the purchase or sale of commodities.

Hedge accounting

We observe that whenever there is a direct link between the volume sold being hedged and the volume of the hedging instrument, it is clear that everything that will be sold by the entity will be covered by the derivative (e.g. if the entity sells 100 units it covers 100 units and if it sells nothing it covers nothing). Therefore, the entity has fully eliminated the hedged risk. In such cases, however, the current provision of IFRS 9 seems to require entities to designate a fixed volume of forecasted sales - that must be highly probable – which results in the recognition of an ineffectiveness in the income statement. This outcome does not provide relevant information to the users. The ineffectiveness is generated from the application of the accounting requirements but it does not represent correctly the economic reality of the hedge.

We acknowledge that the IASB proposal contained in the ED resolves this issue at least for contracts which fall within its scope, so we support the finalization of this ED.

Disclosures

In our understanding some of the disclosures proposed by the IASB should be provided even for contracts for renewable electricity that are measured at fair value through profit or loss. We believe that for contracts measured at fair value additional disclosures are not needed (i.e. disclosure requirements in IFRS 7 and IFRS 13 are sufficient). Therefore, we suggest to reduce the scope of the proposed disclosures only for contracts within the scope of the ED that qualify for the own use exemption.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Michele Pizzo
(OIC President of the Board of Directors)

