# INTERNATIONAL FINANCIAL REPORTING STANDARD 9 financial instruments

Basis for Conclusions

## *Contracts Referencing Nature-dependent Electricity* (Amendments to IFRS 9 and IFRS 7)

Available in:

- 2024 Edition – Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* issued by the IASB in December 2024; incorporates *Effective Date of Amendments to IFRS 9 and IFRS 7*.

Paragraphs 2.3A–2.3B, 2.8, 6.10.1–6.10.2, 7.1.15, 7.2.51–7.2.53, B2.7–B2.8 and their subheadings are added. A subheading is also added before paragraph 2.4. Paragraph 2.6 is amended. New text is underlined. Paragraphs 2.4 and 2.5 are not amended but are included for ease of reference.

## Chapter 2 Scope

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**2.3A Paragraphs 6.10.1–6.10.2 and B2.7–B2.8 apply only to contracts referencing nature-dependent electricity. Contracts referencing nature-dependent electricity are contracts that expose an entity to variability in the underlying amount of electricity because the source of electricity generation depends on uncontrollable natural conditions (for example, the weather). Contracts referencing nature-dependent electricity include both contracts to buy or sell nature-dependent electricity and financial instruments that reference such electricity.**

2.3B An entity shall not apply paragraphs 6.10.1–6.10.2 and B2.7–B2.8 by analogy to other contracts, items or transactions.

### Contracts to buy or sell non-financial items

**2.4 This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. However, this Standard shall be applied to those contracts that an entity designates as measured at fair value through profit or loss in accordance with paragraph 2.5.**

**2.5 A contract to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contract was a financial instrument, may be irrevocably designated as measured at fair value through profit or loss even if it was entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. This designation is available only at inception of the contract and only if it eliminates or significantly reduces a recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from not recognising that contract because it is excluded from the scope of this Standard (see paragraph 2.4).**

2.6 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. These include:

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A contract to which (b) or (c) applies is not entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements and, accordingly, is within the scope of this Standard. Other contracts (which include contracts as described in paragraph 2.3A) to which paragraph 2.4 applies are evaluated to determine whether they were entered into and continue to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements and, accordingly, whether they are within the scope of this Standard.

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2.8 An entity shall also apply paragraphs B2.7–B2.8 to assess whether contracts referencing nature-dependent electricity (as described in paragraph 2.3A) are entered into and continue to be held for the purpose of the receipt of electricity in accordance with the entity's expected usage requirements.

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# Chapter 6 Hedge accounting

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## 6.10 Contracts referencing nature-dependent electricity

6.10.1 Some contracts referencing nature-dependent electricity are designated as hedging instruments in hedges of forecast electricity transactions. In addition to the requirements in paragraph 6.3.7, for such a hedging relationship 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. The other hedge accounting requirements of this chapter continue to apply to such a hedging relationship.

6.10.2 If the cash flows of the contract referencing nature-dependent electricity designated as the hedging instrument are conditional on the occurrence of a forecast transaction that is designated as the hedged item in accordance with paragraph 6.10.1, this forecast transaction is presumed to be highly probable as required by paragraph 6.3.3.

# Chapter 7 Effective date and transition

## 7.1 Effective date

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7.1.15 *Contracts Referencing Nature-dependent Electricity*, issued in December 2024, added paragraphs 2.3A–2.3B, 2.8, 6.10.1–6.10.2, 7.2.51–7.2.53, and B2.7–B2.8 and amended paragraph 2.6. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2026. Early application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

## 7.2 Transition

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**Transition for *Contracts Referencing Nature-dependent Electricity***

7.2.51 An entity shall apply paragraphs 2.3A–2.3B, 2.8 and B2.7–B2.8 retrospectively in accordance with IAS 8 using the facts and circumstances at the date of initial application (the date when an entity first applies the amendments). 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. An entity need not restate prior periods to reflect the application of these amendments. The entity is permitted to restate prior periods only if it is possible to do so without the use of hindsight. If the entity does not restate prior periods, it shall recognise any difference between the previous carrying amount and the carrying amount at the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) at the beginning of that reporting period.

7.2.52 If a contract referencing nature-dependent electricity (as described in paragraph 2.3A) would be outside the scope of IFRS 9 as a result of applying the requirements in paragraphs B2.7–B2.8, an entity is permitted, at the date of initial application, to irrevocably designate this contract as measured at fair value through profit or loss in accordance with paragraph 2.5.

7.2.53 An entity shall apply paragraphs 6.10.1–6.10.2 prospectively to new hedging relationships designated on or after the date of initial application. An entity is permitted, at the date of initial application, to discontinue a hedging relationship in which a contract referencing nature-dependent electricity (as described in paragraph 2.3A) has been designated as the hedging instrument, if the same hedging instrument is designated in a new hedging relationship in accordance with paragraphs 6.10.1–6.10.2.

# Appendix B
# Application guidance

*This appendix is an integral part of the Standard.*

## Scope (Chapter 2)

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**Contracts to buy nature-dependent electricity**

B2.7 Some contracts referencing nature-dependent electricity (as described in paragraph 2.3A) require an entity to buy and take delivery of the electricity when it is generated. These contractual features expose the entity to the risk that it would be required to buy electricity during a delivery interval in which the entity cannot use the electricity. The entity might also have no practical ability to avoid making sales of unused electricity because the design and operation of the electricity market in which the electricity is transacted under the contract require any amounts of unused electricity to be sold within a specified time. When an entity applies the requirements in paragraph 2.4, such sales are not necessarily inconsistent with the contract being held in accordance with the entity's expected usage requirements. An entity entered into and continues to hold such a contract in accordance with its expected electricity usage requirements if the entity 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.

B2.8 In determining whether an entity is a net purchaser of electricity, 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.

## *Amendments to the classification and measurement of financial instruments* (Amendments to IFRS 9 and IFRS 7)

Available in:

- 2024 Edition – Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* as issued by the IASB in May 2024.

Paragraphs 7.1.12–7.1.13 and 7.2.47–7.2.49 and the heading before paragraph 7.2.47 are added. For ease of reading these paragraphs have not been underlined.

### 7.1 Effective date

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7.1.12 *Amendments to the Classification and Measurement of Financial Instruments*, which amended IFRS 9 and IFRS 7, issued in May 2024, added paragraphs 7.2.47–7.2.49, B3.1.2A, B3.3.8–B3.3.10, B4.1.8A, B4.1.10A, B4.1.16A and B4.1.20A. It also amended paragraphs B4.1.10, B4.1.13, B4.1.14, B4.1.16, B4.1.17, B4.1.20, B4.1.21 and B4.1.23. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2026. Earlier application is permitted.

7.1.13 If an entity elects to apply these amendments for an earlier period, it shall either:

(a) apply all the amendments at the same time and disclose that fact; or

(b) apply only the amendments to the Application Guidance to Section 4.1 of this Standard (Classification of financial assets) for that earlier period and disclose that fact.

### 7.2 Transition

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#### Transition for *Amendments to the Classification and Measurement of Financial Instruments*

7.2.47 An entity shall apply *Amendments to the Classification and Measurement of Financial Instruments* retrospectively, in accordance with IAS 8, except as specified in paragraphs 7.2.48–7.2.49. For the purposes of the requirements in these paragraphs, the date of initial application is the beginning of the annual reporting period in which the entity first applies the amendments.

7.2.48 An entity is not required to restate prior periods to reflect the application of these amendments. An entity may restate prior periods if, and only if, it is possible to do so without the use of hindsight. If an entity does not restate prior periods, it shall recognise the effect of initially applying these amendments as an adjustment to the opening balance of financial assets and financial liabilities and the cumulative effect, if any, as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

7.2.49 At the date of initial application of the amendments to the Application Guidance to Section 4.1 of this Standard (Classification of financial assets), an entity shall disclose for each class of financial assets that changed measurement category as a result of applying the amendments:

(a) the measurement category and carrying amount determined immediately before the amendments were applied; and

(b) the measurement category and carrying amount determined immediately after the amendments were applied.

## Appendix B
## Application guidance

Paragraphs B3.1.2A, B3.3.8–B3.3.10, B4.1.8A, B4.1.10A, B4.1.16A and B4.1.20A and the heading before paragraph B3.1.2A are added. Paragraphs B4.1.10, B4.1.13, B4.1.14, B4.1.16, B4.1.17, B4.1.20, B4.1.21 and B4.1.23 are amended. Paragraphs B4.1.7A, B4.1.15 and B4.1.22 are not amended but are included for ease of reference. New text is underlined and deleted text is struck through.

### Recognition and derecognition (Chapter 3)

#### Initial recognition (Section 3.1)

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**Date of initial recognition or derecognition**

B3.1.2A Unless paragraph 3.1.2 applies, an entity shall recognise a financial asset or financial liability on the date on which the entity becomes party to the contractual provisions of the instrument (see paragraph 3.1.1). A financial asset is derecognised on the date on which the contractual rights to the cash flows expire or the asset is transferred (see paragraph 3.2.3). Unless an entity elects to apply paragraph B3.3.8, a financial liability is derecognised on the settlement date, which is the date on which the liability is extinguished because the obligation specified in the contract is discharged or cancelled or expires (see paragraph 3.3.1) or the liability otherwise qualifies for derecognition (see paragraph 3.3.2).

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### Derecognition of financial liabilities (Section 3.3)

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B3.3.8 Despite the requirement in paragraph B3.1.2A to derecognise a financial liability on the settlement date, when settling a financial liability (or part of a financial liability) in cash using an electronic payment system, an entity is permitted to deem the financial liability (or part of it) to be discharged before the settlement date if, and only if, the entity has initiated a payment instruction that resulted in:

(a) the entity having no practical ability to withdraw, stop or cancel the payment instruction;

(b) the entity having no practical ability to access the cash to be used for settlement as a result of the payment instruction; and

(c) the settlement risk associated with the electronic payment system being insignificant.

B3.3.9 For the purpose of applying paragraph B3.3.8(c), settlement risk associated with an electronic payment system is insignificant if its characteristics are such that completion of the payment instruction follows a standard administrative process and the time between the criteria in paragraphs B3.3.8(a) and (b) being met and the cash being delivered to the counterparty is short. However, settlement risk would not be insignificant if completion of the payment instruction were subject to the entity's ability to deliver cash on the settlement date.

B3.3.10 An entity that elects to apply paragraph B3.3.8 to the settlement of a financial liability (or part of a financial liability) using an electronic payment system shall apply that paragraph to all settlements made through the same electronic payment system.

## Classification (Chapter 4)

### Classification of financial assets (Section 4.1)

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**Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding**

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B4.1.7A Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money (see paragraphs B4.1.9A–B4.1.9E) and credit risk are typically the most significant elements of interest. However, in such an arrangement, interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. In extreme economic circumstances, interest can be negative if, for example, the holder of a financial asset either explicitly or implicitly pays for the deposit of its money for a particular period of time (and that fee exceeds the consideration that the holder receives for the time value of money, credit risk and other basic lending risks and costs). However, contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. An originated or a purchased financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

...

B4.1.8A In assessing whether the contractual cash flows of a financial asset are consistent with a basic lending arrangement, an entity may have to consider the different elements of interest separately. The assessment of interest focuses on *what* an entity is being compensated for, rather than *how much* compensation an entity receives. Nonetheless, the amount of compensation an entity receives may indicate that the entity is being compensated for something other than basic lending risks and costs. Contractual cash flows are inconsistent with a basic lending arrangement if they are indexed to a variable that is not a basic lending risk or cost (for example, the value of equity instruments or the price of a commodity) or if they represent a share of the debtor's revenue or profit, even if such contractual terms are common in the market in which the entity operates.

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*Contractual terms that change the timing or amount of contractual cash flows*

B4.1.10 If a financial asset contains a contractual term that could change the timing or amount of contractual cash flows (for example, if the asset can be prepaid before maturity or its term can be extended), the entity must determine whether the contractual cash flows that could arise over the life of the instrument due to that contractual term are solely payments of principal and interest on the principal amount outstanding. To make this determination, the entity must assess the contractual cash flows that could arise both before, and after, the change in contractual cash flows, irrespective of the probability of the change in contractual cash flows occurring. The entity may also need to assess the nature of any contingent event (ie the trigger) that would change the timing or amount of the contractual cash flows. While the nature of the contingent event in itself is not a determinative factor in assessing whether the contractual cash flows are solely payments of principal and interest, it may be an indicator. For example, compare a financial instrument with an interest rate that is reset to a higher rate if the debtor misses a particular number of payments to a financial instrument with an interest rate that is reset to a higher rate if a specified equity index reaches a particular level. It is more likely in the former case that the contractual cash flows over the life of the instrument will be solely payments of principal and interest on the principal amount outstanding because of the relationship between missed payments and an increase in credit risk. In the former case, the nature of the contingent event relates directly to, and the contractual cash flows change in the same direction as, changes in basic lending risks and costs. (See also paragraph B4.1.18.)

B4.1.10A In some cases, a contingent feature gives rise to contractual cash flows that are consistent with a basic lending arrangement both before and after the change in contractual cash flows, but the nature of the contingent event itself does not relate directly to changes in basic lending risks and costs. For example, the interest rate on a loan is adjusted by a specified amount if the debtor achieves a contractually specified reduction in carbon emissions. In such a case, when applying paragraph B4.1.10, the financial asset has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding if, and only if, in all contractually possible scenarios, the contractual cash flows would not be significantly different from the contractual cash flows on a financial instrument with identical contractual terms, but without such a contingent feature. In some circumstances, the entity may be able to make that determination by performing a qualitative assessment; but, in other circumstances, it may be necessary to perform a quantitative assessment. If it is clear, with little or no analysis, that the contractual cash flows are not significantly different, an entity need not perform a detailed assessment.

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B4.1.13 The following examples illustrate contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. This list of examples is not exhaustive.

| **Instrument** | **Analysis** |
|---|---|
| ...<br><br>**Instrument EA**<br><br>Instrument EA is a loan with an interest rate that is adjusted every reporting period by a fixed number of basis points if the debtor achieves a contractually specified reduction in carbon emissions during the preceding reporting period.<br><br>The maximum possible cumulative adjustments would not significantly change the interest rate on the loan. | ...<br><br>The contractual cash flows are solely payments of principal and interest on the principal amount outstanding.<br><br>The entity considers whether the contractual cash flows that could arise both before and after each change in contractual cash flows are solely payments of principal and interest (see paragraph B4.1.10).<br><br>If the contingent event of achieving the carbon emissions target occurs, the interest rate is adjusted by a fixed number of basis points, resulting in contractual cash flows that are consistent with a basic lending arrangement. It is only because the nature of the contingent event itself does not relate directly to changes in basic lending risks and costs that the entity cannot conclude – without further assessment – whether the cash flows on the financial asset are solely payments of principal and interest.<br><br>The entity therefore assesses whether, in all contractually possible scenarios, the contractual cash flows would not be significantly different from the contractual cash flows on a financial instrument with identical contractual terms, but without the contingent feature linked to carbon emissions (see paragraph B4.1.10A).<br><br>Because any adjustments over the life of the instrument would not result in contractual cash flows that are significantly different, the entity concludes that the loan has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. |

B4.1.14 The following examples illustrate contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding. This list of examples is not exhaustive.

| **Instrument** | **Analysis** |
|---|---|
| ...<br><br>**Instrument I**<br><br>Instrument I is a loan with an interest rate that is adjusted every reporting period to track the movements in a market-determined carbon price index during the preceding reporting period. | ...<br><br>The contractual cash flows are not solely payments of principal and interest on the principal amount outstanding.<br><br>The contractual cash flows are indexed to a variable (the carbon price index), which is not a basic lending risk or cost. The contractual cash flows are therefore inconsistent with a basic lending arrangement (see paragraph B4.1.8A). |

B4.1.15 In some cases a financial asset may have contractual cash flows that are described as principal and interest but those cash flows do not represent the payment of principal and interest on the principal amount outstanding as described in paragraphs 4.1.2(b), 4.1.2A(b) and 4.1.3 of this Standard.

B4.1.16 This may be the case if the financial asset represents an investment in particular assets or cash flows and hence the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. For example, if the contractual terms stipulate that the financial asset's cash flows increase as more automobiles use a particular toll road, those contractual cash flows are inconsistent with a basic lending arrangement. As a result, the instrument would not satisfy the condition in paragraphs 4.1.2(b) and 4.1.2A(b). ~~This could be the case when a creditor's claim is limited to specified assets of the debtor or the cash flows from specified assets (for example, a 'non-recourse' financial asset).~~

B4.1.16A The situation described in paragraph B4.1.15 may also arise if a financial asset has 'non-recourse' features. A financial asset has non-recourse features if an entity's ultimate right to receive cash flows is contractually limited to the cash flows generated by specified assets. In other words, the entity is primarily exposed to the specified assets' performance risk rather than the debtor's credit risk. For example, a creditor's ultimate right to receive cash flows may be contractually limited to the cash flows generated by specified assets of a structured entity.

B4.1.17 However, the fact that a financial asset ~~is~~ has non-recourse features does not in itself necessarily preclude the financial asset from meeting the condition in paragraphs 4.1.2(b) and 4.1.2A(b). In such situations, the creditor is required to assess ('look through to') the link between the particular underlying assets or cash flows and the contractual cash flows of the financial asset being classified to determine whether those ~~the~~ contractual cash flows ~~of the financial asset being classified~~ are payments of principal and interest on the principal amount outstanding. An entity shall also consider how this link is affected by other contractual arrangements, such as subordinated debt or equity instruments issued by the debtor. If the terms of the financial asset give rise to any other cash flows or limit the cash flows in a manner inconsistent with payments representing principal and interest, the financial asset does not meet the condition in paragraphs 4.1.2(b) and 4.1.2A(b). Whether the underlying assets are financial assets or non-financial assets does not in itself affect this assessment.

...

*Contractually linked instruments*

B4.1.20 In some types of transactions with non-recourse features, an issuer may prioritise payments to the holders of financial assets using multiple contractually linked instruments ~~that create concentrations of credit risk~~ (tranches). Each tranche has a subordination ranking that specifies the order in which any cash flows generated by the issuer from the underlying pool of financial instruments are allocated to the tranche. The prioritisation of payments to the holders of these tranches is established through a waterfall payment structure that creates concentrations of credit risk and results in a disproportionate allocation of cash shortfalls from the underlying pool between the tranches. In such situations, the holders of a tranche have the right to payments of principal and interest on the principal amount outstanding only if the issuer generates sufficient cash flows to satisfy higher-ranking tranches. In these types of transactions, the holders of a tranche apply paragraphs B4.1.21–B4.1.26 instead of paragraph B4.1.17.

B4.1.20A Some transactions that may contain multiple debt instruments and appear to have the characteristics described in paragraph B4.1.20 are, in fact, lending arrangements that are structured to provide enhanced credit protection to a creditor (or group of creditors). For example, a structured entity may be set up to hold the underlying assets that will generate the cash flows to repay the creditor. The structured entity issues senior and junior debt instruments. The creditor holds the senior debt instrument and the entity sponsoring the structured entity that holds the junior debt instrument has no practical ability to sell the junior instrument without the senior debt instrument becoming payable. The holders of such debt instruments apply paragraphs B4.1.7–B4.1.19 instead of paragraphs B4.1.21–B4.1.26.

B4.1.21 In ~~such~~ transactions that contain contractually linked instruments, as described in paragraph B4.1.20, a tranche has cash flow characteristics that are payments of principal and interest on the principal amount outstanding only if:

(a) ...

B4.1.22 An entity must look through until it can identify the underlying pool of instruments that are creating (instead of passing through) the cash flows. This is the underlying pool of financial instruments.

B4.1.23 The underlying pool must contain one or more instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. For the purposes of this assessment, the underlying pool can include financial instruments that are not within the scope of the classification requirements (see Section 4.1) but that have contractual cash flows that are equivalent to solely payments of principal and interest on the principal amount outstanding—for example, some lease receivables. However, lease receivables that are subject to residual value risk, or that comprise variable lease payments that are indexed to a variable that is not a basic lending risk or cost (for example, a market rental rate), do not have contractual cash flows that are equivalent to solely payments of principal and interest on the principal amount outstanding.

## *Derecognition of Lease Liabilities; and Transaction Price*

## Chapter 2 Scope

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| Available in:<br><br>• 2024 Edition – Amendments to IFRS 9 *Financial Instruments* as issued by the IASB in July 2024. |
| Paragraph 2.1(b)(ii) is amended. Paragraph 2.1(b)(i) is not amended but is included for ease of reference. New text is underlined and deleted text is struck through. |

**2.1 This Standard shall be applied by all entities to all types of financial instruments except:**

...

**(b) rights and obligations under leases to which IFRS 16 *Leases* applies. However:**

**(i) finance lease receivables (ie net investments in finance leases) and operating lease receivables recognised by a lessor are subject to the derecognition and impairment requirements of this Standard;**

**(ii) lease liabilities recognised by a lessee are subject to the derecognition requirements in <u>paragraphs</u> ~~paragraph~~ 3.3.1 <u>and 3.3.3</u> of this Standard; and**

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## Chapter 5 Measurement

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| Paragraph 5.1.3 is amended. Paragraphs 5.1.1–5.1.2 are not amended but are included for ease of reference. New text is underlined and deleted text is struck through. |

### 5.1 Initial measurement

**5.1.1 Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, *transaction costs* that are directly attributable to the acquisition or issue of the financial asset or financial liability.**

**5.1.1A However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, an entity shall apply paragraph B5.1.2A.**

5.1.2 When an entity uses settlement date accounting for an asset that is subsequently measured at amortised cost, the asset is recognised initially at its fair value on the trade date (see paragraphs B3.1.3–B3.1.6).

5.1.3 Despite the requirement in paragraph 5.1.1, at initial recognition, an entity shall measure trade receivables at <u>the amount determined by applying</u> ~~their transaction price (as defined in~~ IFRS 15~~)~~ if the trade receivables do not contain a significant financing component in accordance with IFRS 15 (or when the entity applies the practical expedient in accordance with paragraph 63 of IFRS 15).

## Chapter 7 Effective date and transition

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| Paragraphs 7.1.14 and 7.2.50 and the subheading before paragraph 7.2.50 are added. For ease of reading, these paragraphs have not been underlined. The new subheading is underlined. |

### 7.1 Effective date

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7.1.14 *Annual Improvements to IFRS Accounting Standards—Volume 11*, issued in July 2024, amended paragraph 2.1(b)(ii), paragraph 5.1.3 and Appendix A. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2026. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

...

### 7.2 Transition

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**<u>Transition for *Annual Improvements to IFRS Accounting Standards—Volume 11*</u>**

7.2.50 An entity shall apply the amendment to paragraph 2.1(b)(ii) made by *Annual Improvements to IFRS Accounting Standards—Volume 11* to lease liabilities that are extinguished on or after the beginning of the annual reporting period in which the entity first applies that amendment.

## Appendix A
## Defined terms

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|---|
| The last paragraph of Appendix A is amended. New text is underlined and deleted text is struck through. Footnotes to the text are not reproduced. |

...

The following terms are defined in paragraph 11 of IAS 32, Appendix A of IFRS 7~~,~~ <u>or</u> Appendix A of IFRS 13 ~~or Appendix A of IFRS 15~~ and are used in this Standard with the meanings specified in IAS 32, IFRS 7~~,~~ <u>or</u> IFRS 13 ~~or IFRS 15~~:

(a) credit risk;

(b) equity instrument;

(c) fair value;

(d) financial asset;

(e) financial instrument<u>; and</u>

(f) financial liability.~~;~~

(g) ~~transaction price~~[deleted]

# ILLUSTRATIVE EXAMPLES

Paragraphs IE148–IE159 and their subheadings are added. For ease of reading, new text is not underlined.

## Hedge accounting for nature-dependent electricity contracts

IE148 This example illustrates one possible way for an entity to designate forecast electricity purchases as the hedged item with a variable nominal amount in a cash flow hedge in accordance with paragraph 6.10.1 of IFRS 9.

### Example 19—Designation of a variable nominal amount if using contracts referencing nature-dependent electricity as hedging instruments

**Fact pattern**

IE149 Entity A is a machine manufacturer in Region One and purchases electricity from the market in that region as and when it needs electricity (that is, on-demand). To hedge the unit price per megawatt hour (MWh) purchased, Entity A enters into a 25-year virtual power purchase agreement with Wind Farm X, which generates and delivers renewable electricity to the market in Region Two.

IE150 This virtual power purchase agreement necessitates net settlement of the difference between the fixed unit price specified in the contract and the market price based on the amount of renewable electricity delivered by Wind Farm X to the market in Region Two. Entity A settles the contracts net in cash in arrears based on the actual amount of electricity Wind Farm X delivered to the market in Region Two during a calendar month. The contract qualifies as a contract referencing nature-dependent electricity (as described in paragraph 2.3A of IFRS 9). Entity A wants to designate this contract as a hedging instrument in a cash flow hedge to hedge the cash flow variability of future electricity purchases.

**Designating a variable nominal amount as the hedged item (paragraph 6.10.1 of IFRS 9)**

IE151 Entity A designates as a cash flow hedge the hedging relationship between:

(a) its forecast electricity purchases in Region One for a term of 25 years (as the hedged item); and

(b) the contract for nature-dependent electricity described in IE150 (as the hedging instrument).

IE152 In line with its risk management strategy, Entity A wants to designate as the hedged item a variable nominal amount of electricity purchases per month that is aligned to the variable nominal amount of electricity that Wind Farm X is expected to deliver to the market as referenced in the hedging instrument. Entity A allocates the first purchases made each month to the variable nominal amount designated.

IE153 Entity A uses a probability-based assessment to determine whether the designated amount of electricity purchases for each month is highly probable. It expects its monthly electricity purchases to continue over the hedged term, based on its current and past practice (that is, at the time of designation Entity A does not have any information to the contrary). Based on the probability assessment, Entity A determines that it is highly probable that the amount of the entity's forecast electricity purchases will be higher than or equal to the variable nominal amount designated as the hedged item.

**Effectiveness of the hedging relationship**

IE154 To assess the effectiveness of the hedging relationship, Entity A assesses whether there is an economic relationship between the hedged item (future electricity purchases) and the hedging instrument (the contract referencing nature-dependent electricity). Although Entity A purchases future electricity in Region One and Wind Farm X delivers nature-dependent electricity to Region Two, this difference in reference markets does not preclude an economic relationship. If the hedged item and the hedging instrument have an economic relationship their values would generally move in opposite directions as a result of the same risk-that is the hedged risk (as set out in paragraph B6.4.4 of IFRS 9).

IE155 However, Entity A identifies two potential sources of ineffectiveness. The first is the basis risk associated with the variation in market prices of electricity between Region One and Region Two. The second is structural price differences—that is the difference in the forecast market prices of electricity at the time of purchases to meet electricity demand of Entity A (reflected in the hedged item) and the forecast market prices at the time of delivery of electricity by Wind Farm X under the contract referencing nature-dependent electricity that are used to calculate the cash flows for net settlement (reflected in the hedging instrument).

IE156 For the forecast purchases of electricity, forecast market prices are modelled based on the expected future electricity spot price, which might vary depending on the timing of the purchase (for example, peak or off-peak). For example, Entity A might use an expected future baseload price in Region One and adjust that price for the timing of the expected consumption over a month, to reflect the actual timing of the purchase to meet demand. This method results in an average forecast market price per monthly volume purchased.

IE157 The forecast market prices for the volume expected to be delivered under the hedging instrument are also modelled based on the expected future electricity spot price. For example, Entity A might use an expected future baseload price in Region Two (as opposed to Region One because the hedging instrument is referencing a different spot market) adjusted for the expected production and hence the delivery profile of Wind Farm X for that same month. This method results in another average forecast market price for the same monthly volume, which might then lead to hedging ineffectiveness. Despite these sources of ineffectiveness, Entity A determines that an economic relationship exists.

**Measurement**

IE158 The variable nominal amounts of the hedged item and hedging instrument are both based on the variable volume of nature-dependent electricity Wind Farm X is expected to deliver to the electricity market in Region Two. Therefore, Entity A uses the same volume assumptions it uses to measure the contract referencing nature-dependent electricity to construct a hypothetical derivative to measure the changes in present value of the hedged item. However, with regards to the forecast market prices, Entity A bases its assumptions on the characteristics of the respective markets as described in paragraphs IE156–IE157.

IE159 Entity A adjusts the cash flow hedge reserve in accordance with paragraph 6.5.11(a) to the lower of:

(a) the cumulative gain or loss on the hedging instrument from inception of the hedge; and

(b) the cumulative change in fair value (present value) of the hedged item (that is the present value of the cumulative change in the hedged expected future cash flows, which for the volume assumptions only are aligned with the ones from the hedging instrument) from inception of the hedge.

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