Technical update in Thailand

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Tax

Recent public tax ruling on VAT implications of domestic transportation by trucks with temperature-controlled containers

On 8 January 2024, the Revenue Department issued public tax ruling no. Gor.Kor. 0702/88, which states that domestic transportation of goods using temperature-controlled container trucks is considered a "transportation service" exempt from VAT. However, temperature-controlled container trucks must meet the Department of Land Transport's standards, and the provider's duties are limited to merely transporting goods. This ruling indicates a change of interpretation by the Revenue Department. In the past, the Revenue Department had issued multiple tax rulings stating that transporting goods using trucks with temperature-controlled containers was considered a "hire-of-work service" and was subject to 7% VAT, even though the provider's duties were limited to transport activities only.

Characteristics of transportation services

In line with past tax rulings, the Revenue Department considers transportation to involve the delivery of goods or people from one location to another without additional services. Examples of factors that define "transport" include:

- Providing a service that emphasizes the movement of products from one location to another.
- Offering transport services without additional services other than loading and unloading products.
- Distinguishing transportation from other services such as packing, unpacking, barcoding, and warehouse management.
- Separating transportation from additional services like logistics, cleaning, or inspection.
- Issuing separate invoices and receipts for transport services from other related services.
- Directly transporting products from the factory where the customer purchases them to the customer's warehouse without involving the transporter's warehouse.

Characteristics of hire of work

According to the Thai Civil Commercial Code, a "hire of work" contract is defined as an agreement in which a person, known as the contractor, undertakes a specific task for another person, known as the employer, who agrees to compensate based on the outcome of the work. The provision of services is thus considered a hire-of-work contract. Besides transportation, the hire of work can encompass various services, for example, providing temperature-controlled containers (based on past tax rulings), installing monitoring devices, reporting delivery results, unloading and storing products, arranging and labelling products for distribution, and reporting the results of product delivery to customers. Further, the service provider must typically commit to offering additional services, such as packing, loading, and unloading products, warehouse management, armoured vehicles with satellite tracking, etc.

Tax implications of "transportation" and "hire of work"

It is important to differentiate between businesses that fall under transportation and those categorized as hire of work, since these two have different tax implications. Domestic transportation is exempt from VAT, while the hire of work is subject to VAT. Transportation fees are subject to 1% withholding tax, whereas fees from the hire of work are subject to 3% withholding tax.

The management of cash flow in transport is less efficient than that for the hire of work. Despite the withholding tax on transportation fees being 1% as opposed to 3% for the hire of work, the 7% VAT has a greater effect on cash flow.

For a business not registered for VAT, input VAT is treated as a cost, and output VAT cannot be collected from customers. On the other hand, a business registered for VAT can collect output VAT from customers, which can then be used to offset input VAT paid to suppliers. However, domestic land transportation, being completely exempt from VAT, faces a disadvantage compared to domestic transportation by air and sea, which is both subject to VAT and able to benefit from claiming a VAT credit.

If a business is registered for VAT, it can claim input VAT paid to suppliers. If the input VAT exceeds the output VAT collected from customers, the taxpayer can request a tax refund or claim a VAT credit. If a business is not part of the VAT system, the input VAT paid to suppliers may be considered deductible expenses for corporate income tax purposes. Thus, we can see that VAT-registered companies generally have better cash flow than non-VAT businesses.

Over the years, many logistical and transportation operators have learned from past tax rulings and have chosen to separate their transportation business from other services. For example, they operate logistics services under a separate entity from the transportation company to plan the treatment of VAT and non-VAT expenses effectively.

Tax ruling no. Gor.Kor. 0702/88 stated that the transport service provider in this ruling also had other duties, e.g., bringing empty boxes to the logistic centre, reporting the delivery results, and being liable for the damages or losses of the goods, which the Revenue Department considered to be a VAT-able business. To increase VAT efficiency, the provider may consider operating transportation services and other logistic services as separate legal entities.

In conclusion, it is important for businesses in the transportation industry to understand the VAT and withholding tax implications for their businesses. Domestic land transportation using trucks with temperature-controlled containers should only rely on this newly issued tax ruling on exemption from VAT after revisiting all of the duties set out in the contract with the customer. Complying with these tax regulations related to the industry requires a comprehensive understanding of Thai tax law, relevant tax rulings, and advice from tax professionals.

BOI incentives for the manufacture of circuit board and/or parts

On 22 April 2024, the BOI issued Board of Investment Announcement No. Sor. 4/2567 pursuant to Board of Investment Announcement No. 9/ 2565 dated 8 December 2023 regarding measures for promoting investment in industries which are important to the country's development.

The recent announcement addresses the following:

1. The manufacture of raw materials or essential materials for manufacturing printed circuit boards is eligible for investment incentives.
2. The manufacture of flexible printed circuit boards, multilayer printed circuit boards, and printed circuit boards must incorporate circuit tracing.
3. The following activities are now eligible for investment incentives related to manufacturing circuit boards and/or parts.

Activites	Conditions	Incentives
4.2.4.5 The provision of services in key processes to support the manufacture of printed circuit boards	Must involve essential manufacturing processes printed circuit boards, such as: • lamination; • drilling; • plating; and • routing.	• If the project includes a capital investment of at least THB 1 billion for machinery (including costs of installation and test runs), the company receiving investment incentives will be entitled to an exemption from CIT for 3 years, accounting for 100% of investment (excluding cost of land and working capital). • The company receiving investment incentives will also be exempt from import duty on machinery and raw materials that are used in the manufacturing process and for exporting overseas. • The company receiving investment incentives will also be eligible for certain non-tax incentives. • If the project does not include a capital investment of at least THB 1 billion for machinery (including costs of installation and test runs), the only tax incentives that the company receiving investment incentives will receive is the exemption from import duty on machinery and raw materials that are used in the manufacturing process and for exporting overseas. • The company receiving investment incentives will also be eligible for certain non-tax incentives.

Activites	Conditions	Incentives
4.2.4.6 The manufacture of printed circuit board essential or raw materials: copper clad lamination (CCL), flexible copper clad laminate (FCCL), and prepreg	No specific conditions stated	• If the project includes a capital investment of at least THB 1.5 billion for machinery (including costs of installation and test runs), the company receiving investment incentives will be entitled to an exemption from CIT for 8 years, accounting for 100% of investment (excluding cost of land and working capital). • The company receiving investment incentives will also be exempt from import duty on machinery and raw materials that are used in the manufacturing process and for exporting overseas. • The company receiving investment incentives will also be eligible for certain non-tax incentives. • If the project does not include a capital investment of at least THB 1.5 billion for machinery (including costs of installation and test runs), the company receiving investment incentives will be entitled to an exemption from CIT for 5 years, accounting for 100% of investment (excluding cost of land and working capital). • The company receiving investment incentives will also receive an exemption from import duty on machinery and raw materials that are used in the manufacturing process and for exporting overseas. • The company receiving investment incentives will also be eligible for certain non-tax incentives.
4.2.4.7 The manufacture of raw materials or essential materials for printed circuit boards, such as dry film, transfer film, backup board, etc.	No specific conditions stated	• The company receiving investment incentives will receive an exemption from import duty on machinery and raw materials that are used in the manufacturing process and for exporting overseas. • The company receiving investment incentives will also be eligible for certain non-tax incentives.

Reference (in Thai):

- Announcement of the Board of Investment No. Sor.4/2567

Promoting business activities of music festivals, sports festivals, and international events

To promote Thailand as a tourism hub and to assist with organizing world class events, the BOI issued Board of Investment Announcement No. Sor. 3/2567 dated 22 April 2024 regarding a new eligible activity, 10.8.11, Activity of organizing music festivals, sports festivals, and international events.

The conditions for applying for incentives for this activity are as follows:

1. The applicant must have an operating plan for organizing a music festival, sports festival, or international event, and the scope of business must be approved by the BOI. Such music festivals, sports festivals, and internation events are excluded from organizing meetings or exhibiting products.
2. The applicant must make a minimum capital investment of not less than THB 100 million for each festival and event in the form of operating expenses for organizing music festivals, sports festivals, and international events.
3. The applicant must submit an organizational plan and bidding documents to the BOI for approval before exercising any rights or using any incentives granted by the BOI.
4. The company receiving investment incentives cannot request an extension of the deadline for importing machinery to be used in the business.

The company receiving investment incentives will be entitled to an exemption from import duty on machinery for 3 years, as well as be eligible to apply for work permits and visas for foreign expert skilled workers for 3 years from the date that the BOI certificate is issued.

Reference (in Thai):

- Announcement of the Board of Investment No. Sor.4/2567

TFRS16: Accounting for Sale and Leaseback Transactions

For the period ending on or after 1 January 2025, TFRS 16 requires entities that enter into sale and leaseback contracts to measure lease liabilities and right-of-use assets using expected lease payments, which include variable lease payments.

The requirement to use expected lease payments, including variable lease payments, is intended to provide a more accurate representation of the economic substance of the transaction.

Here are a few key reasons for this requirement:

1. Faithful representation: By including variable lease payments in the measurement of lease liabilities and right-of-use assets, the financial statements better reflect the true obligations and assets of the entity.
2. Comparability: This requirement ensures that entities with similar sale and leaseback arrangements report their financial positions consistently, enhancing comparability across companies.
3. Preventing off-balance-sheet financing: Without this requirement, entities could structure sale and leaseback transactions with primarily variable lease payments to avoid recognizing lease liabilities on their balance sheets, potentially misleading investors and other stakeholders.
4. Alignment with the general principles of IFRS 16: The standard requires the measurement of lease liabilities and right-of-use assets based on the present value of lease payments, including variable payments that depend on an index or rate. Extending this principle to sale and leaseback transactions ensures consistency in the application of the standard.

One of the most challenging scenarios under this standard involves transactions with variable lease payments. This article provides a practical example of how to account for a sale and leaseback transaction that qualifies as a sale under TFRS 15 and includes variable lease payments.

This example will include a step-by-step process of recognition, measurement, and subsequent accounting treatment. This will provide valuable insights for financial professionals dealing with similar transactions in their organizations.

Example

Sale and leaseback transaction that meets the conditions to be recognized as a sale transaction with variable lease payments.

1. On 1 January 20X1, Company A sells machinery to Company B for THB 30,000 in cash. The fair value of the machinery on the date of sale is THB 30,000.
2. Before the sale, the machinery had a book value of THB 22,000 (the machinery was purchased for THB 40,000 and had accumulated depreciation of THB 18,000 as of the date of sale).
3. Company A concludes that the transfer of the machinery meets the conditions for being recognized as a sale under TFRS 15.
4. Company A will pay rent in 3 instalments at the end of each year, starting from 31 December 20X1.
5. The lease payments at the end of each year consist of: (1) fixed payments of THB 6,000 per year; and (2) variable payments calculated based on the seller-lessee's production volume reported in the 12 months before the lease payment is due, at a rate of THB 0.10 per unit.
6. Company A can reasonably estimate the production volume for years 20X1 - 20X3. The estimated production volume and rent are as follows:

Date	Estimate production volume (units)	Variable rent (Baht)	Fixed rent (Baht)	Estimated total rent (Baht)
31/12/20X1	40,000	4,000	6,000	10,000
31/12/20X2	42,000	4,200	6,000	10,200
31/12/20X3	50,000	5,000	6,000	11,000

7. The actual production volumes and lease payments Company A pays to Company B at the end of years 20X1, 20X2, and 20X3 are as follows:

Date	Production volume (units)	Variable rent (Baht)	Fixed rent (Baht)	Total rent (Baht)
31/12/20X1	44,000	4,400	6,000	10,400
31/12/20X2	40,500	4,050	6,000	10,050
31/12/20X3	57,000	5,700	6,000	11,700

8. At the end of the lease term, Company A returns the machinery to Company B.
9. Company A's incremental borrowing rate = 6%

The entity measures the present value of the lease payments over the contract term discounted at the incremental borrowing rate of 6%, as follows:

Year	Estimated rent (Baht)	PV factor 6%	PV (Baht)
1	10,000	0.9434	9,434
2	10,200	0.8900	9,078
3	11,000	0.8396	9,236
		PV of rent	**27,748**

The lease liability amortization schedule can be shown as follows:

Date	Annual rent (Baht)	Interest expense (Baht)	Principle repayment (Baht)	Remaining principle (Baht)
1/1/20X1				27,748
31/12/20X1	10,000	1,665	8,335	19,413
31/12/20X2	10,200	1,165	9,035	10,377
31/12/20X3	11,000	623	10,377	-
Total	**31,200**	**3,451**		

Company A believes that the appropriate method for determining the portion of the right to use the machinery that the company retains is to compare the present value of the annual rent to the fair value of the machinery.

The present value of the annual rent is THB 27,748.

Company A recognizes the right to use the machinery that the company retains through the lease-back of the machinery in proportion to the previous book value
= (THB 27,748/THB 30,000) x THB 22,000
= THB 20,348

The total gain from the sale of the machinery is THB 8,000 (THB 30,000 – THB 22,000), divided into:

1. THB 7,400 ((THB 27,748/THB 30,000) x THB 8,000) related to the right to use the machinery that Company A retains
2. THB 600 ((THB 30,000 – THB 27,748)/THB 30,000) x THB 8,000) related to the rights transferred to Company B as shown in the following table:

	Total value (Baht)	Percentage of total Value	Leased back portion	Sold portion (Baht)
Sale Price	30,000	100.0%	27,748	2,252
Book Value	22,000	73.3%	20,348	1,652
Gain	8,000	26.7%	7,400	600

Accounting entries for Company A:

1/1/20X1

Record sale and leaseback transaction

Dr. Cash 30,000

Dr. Accumulated depreciation - Machinery 18,000

Dr. Right-of-use asset - Machinery under lease 20,348

Dr. Deferred interest expense 3,452

Cr. Machinery 40,000

Cr. Lease liability 31,200

Cr. Gain on sale and leaseback of machinery 600

31/12/20X1

Record lease payment

Dr. Lease liability 10,000

Dr. Difference from lease payment 400

Cr. Cash 10,400

Record interest expense

Dr. Interest expense 1,665

Cr. Deferred interest expense 1,665

Record depreciation of right-of-use asset

Dr. Depreciation expense - Right-of-use asset 6,783

Cr. Accumulated depreciation - Right-of-use asset 6,783

31/12/20X2

Record lease payment

Dr. Lease liability 10,200

Dr. Difference from lease payment 150

Cr. Cash 10,050

Record interest expense

Dr. Interest expense 1,165

Cr. Deferred interest expense 1,165

Record depreciation of right-of-use asset

Dr. Depreciation expense - Right-of-use asset 6,783

Cr. Accumulated depreciation - Right-of-use asset 6,783

31/12/20X3

Record lease payment

Dr. Lease liability 11,000

Dr. Difference from lease payment 700

Cr. Cash 11,700

Record interest expense

Dr. Interest expense 623

Cr. Deferred interest expense 623

Record depreciation of right-of-use asset

Dr. Depreciation expense - Right-of-use asset 6,783

Cr. Accumulated depreciation - Right-of-use asset 6,783

Record return of leased machinery

Dr. Accumulated depreciation - Right-of-use asset 20,348

Cr. Right-of-use asset - Machinery under lease 20,348

Key considerations:

- Sale recognition: The transaction must meet the criteria to be recognized as a sale under TFRS 15. This requires careful evaluation of the transfer of control.
- Right-of-use asset measurement: The right-of-use asset is measured at the proportion of the previous carrying amount that relates to the right of use retained by the seller-lessee.
- Gain recognition: Only the portion of the gain relating to the rights transferred to the buyer-lessor is recognized immediately. The remainder is deferred and amortized over the lease term.
- Variable lease payments: These are not included in the initial measurement of the lease liability but are recognized in profit or loss as they occur.
- Subsequent measurement: The lease liability is adjusted for interest and lease payments, while the right-of-use asset is depreciated over the lease term.
- Disclosures: Adequate disclosures should be made about the nature of the variable payments and their impact on the financial statements.
- Judgment and estimates: Significant judgment may be required in estimating future variable lease payments, which can affect the measurement of the right-of-use asset and gain on sale.

By understanding these key considerations, financial professionals can navigate the complexities of sale and leaseback transactions with variable lease payments under TFRS 16, ensuring accurate financial reporting and compliance with the standard.

Reference (in Thai):

- Assoc. Prof. Vorasak Toommanon, Ph.D. (2024). "TFRS16: Examples of Sale and Leaseback Transactions" Online. Retrieved May, 2024, from CPA Solution Facebook post

Technical update in Thailand
IFRS

IASB publishes amendments to IFRS 9 and IFRS 7

On 30 May 2024, the IASB published its final amendments on the classification and measurement of financial instruments, which address certain application difficulties identified by the IASB during its Post-implementation Review of IFRS 9.

The main purpose of the amendments is to:

- clarify the classification of financial assets with environmental, social and corporate governance (ESG) and similar features, non-recourse instruments and contractually linked instruments, indicating how the SPPI test should be conducted in these particular cases;
- clarify that the settlement date is the date on which financial liabilities are derecognised, while offering preparers an accounting policy choice to derecognise financial liabilities settled via an electronic payment system before that date.

At the same time, the IASB has amended IFRS 7 to introduce additional disclosures on:

- equity instruments measured at fair value through equity;
- financial instruments with contingent contractual terms.

These amendments are effective for annual reporting periods beginning on or after 1 January 2026, with the option of early application, either in their entirety or only in respect of the classification of financial assets.

These amendments are also applicable retrospectively, with no requirement to restate comparative periods.

Publication of IFRS 19

On 9 May, the IASB issued IFRS 19 - Subsidiaries without Public Accountability: Disclosures.

Readers will remember that this standard will:

- first, simplify the preparation of the financial statements of subsidiaries without public accountability, by allowing them to apply the accounting policies of the group when preparing their local financial statements; and
- second, reduce the disclosure requirements for these subsidiaries.

A subsidiary will be eligible if:

- it has no public accountability (i.e. it is neither listed nor a financial institution); and
- its ultimate or intermediate parent publishes consolidated financial statements that are available for public use and comply with IFRSs.

The effective date of this optional standard is 1 January 2027, but IFRS 19 can be applied as soon as it is issued, subject to adoption by local jurisdictions. At the European level, EFRAG has not yet received the European Commission's request for endorsement advice (no information has been given at this stage regarding the endorsement of the standard).

10th compilation of IFRS IC agenda decisions

In early May, the IFRS Foundation released the tenth compilation of IFRS Interpretations Committee (IFRS IC) agenda decisions, taken between November 2023 and April 2024. The compilation is available here.

The decisions presented in this compilation relate to the following topics:

- IFRS 3: payments contingent on continued employment during handover periods;
- IAS 27: merger between a parent and its subsidiary in separate financial statements; and
- IAS 37: climate-related commitments.

Contracts for Renewable Electricity (PPAs and VPPAs): IASB publishes exposure draft of proposed amendments to IFRS 9 and IFRS 7

This exposure draft is structured around three themes: the rules on own-use classification, changes to the hedge accounting requirements, and disclosures required in the notes. The comment period runs until 7 August 2024.

After giving the first broad-brush outline of this project at its March 2024 meeting, on 8 May 2024 the IASB published the exposure draft (ED) of proposed amendments to IFRS 9 and IFRS 7 on contracts for the purchase of renewable electricity (power purchase agreements or PPAs and virtual power purchase agreements or VPPAs). The ED is available here.

The proposed amendments are currently located within Chapter 6 of IFRS 9 on hedge accounting, including those that relate to own-use classification. However, the IASB may relocate the amendments on own-use classification when the final version is published.

The exposure draft was approved by the IASB with a majority of 12 votes out of 14.

Scope (§6.10.1-6.10.2)

The amendments cover both physical power purchase agreements (traditional purchase/sale contracts) and virtual power purchase agreements (which require net settlement of the difference between the contractually agreed price and the market price) that meet the following two criteria:

- production is nature-dependent and cannot be guaranteed for given volumes or over set periods (“risk of intermittency”);
- the purchaser of the electricity is exposed to substantially all of the volume risk (i.e. the risk that the volume of electricity produced will not correspond to its consumption needs at the time of delivery). The exposure to volume risk usually results from i) the risk of intermittency inherent in the production method; ii) the inclusion of “pay-as-produced” clauses in the contract; and iii) non-linear consumption.

These two criteria are usually met by renewable energy from wind or solar power, but not by energy produced from biomass and not necessarily by hydroelectric energy, as it is possible to regulate production.

In contrast, renewable energy certificates (RECs) and similar certificates, which often accompany these contracts, are not included within the scope of the amendments. They will be addressed under the IASB’s future project on pollutant pricing mechanisms.

The amendments emphasise the fact that the scope is strictly limited and the rules on own-use classification and hedge accounting may not be applied by analogy to other contracts, items or transactions (para. 6.10.2). Thus, it would not be possible to apply the amendments to contracts for the purchase of non-renewable electricity, or to currency risk hedges that are contingent on a business combination or the success of a call for tenders.

Own-use classification (§6.10.3)

IFRS 9 includes an exception for 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 (the so-called “own-use” exception).

In the proposed amendments, classification as “own use” from the buyer’s point of view would be subject to compliance with the following two conditions, considered at inception of the contract and at each subsequent reporting date:

- the volumes of renewable electricity remaining to be delivered during the residual term of the contract correspond to the purchaser’s expected usage requirements, estimated on the basis of reasonable information available at the reporting date, with no need to make a detailed estimate for periods that are far in the future. However, an entity must consider expected changes over a period not less than one year after the reporting date, or the entity’s normal operating cycle;
- the existence of any (past or future) sales of excess renewable electricity by the consumer does not invalidate the “own-use” classification, provided that:
- the sale arises from the volume risk (as defined in the scope, above), which gives rise to temporary mismatches 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;
- the sale is offset by the purchase of at least an equivalent volume of electricity within a “reasonable time”. The IASB cites one month as an example, explaining in the Basis for Conclusions that this example was included to illustrate that a reasonable time is typically a short time. However, should this example be retained in the final amendments, entities with energy consumption profiles that are subject to seasonal constraints could be excluded from the scope.

All these conditions must be met for a PPA to be classified as “own-use”. Otherwise, it would be accounted for as a derivative.

Hedge accounting (§6.10.4 to 6.10.6)

The proposed amendments relate only to IFRS 9, and not the previous standard IAS 39, which can still be applied to hedge accounting.

The amendments relate to the **requirements regarding the definition of a hedged item** when designating a cash flow hedging relationship 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 amount is variable** due to the risk of intermittency.

The ED specifies that in this type of hedging relationship, the hedged item also can be defined as having a variable notional amount if the following conditions are met:

- the hedged item is specified as the variable volume of electricity to which the hedging instrument relates;
- the variable volume hedged does not exceed the estimated volume of future electricity transactions that are highly probable, over the residual duration of the contract. In practice, this criterion will only apply to the purchaser of electricity, with regard to its estimated consumption. From the electricity seller's point of view, the amendment means that in this situation the "highly probable" criterion need not be applied, if the hedged volumes correspond to all or a proportion of the volumes inherent in the hedging instrument. In fact, in this situation, the volumes defined as hedged items are by nature equal to the volumes underlying the hedging instrument, and therefore application of the "highly probable" criterion is not relevant.

Thus, the hedged item is **measured using the same volume assumptions as those used for the hedging instrument**. As a result, a VPPA designated as a hedging relationship does not create any ineffectiveness due to variability in the notional volume, from either the buyer or the seller's point of view. However, the other criteria used to define the hedged item – such as price, timing or the local reference market for supply – cannot replicate those of the hedging instrument, and thus remain potential sources of hedge ineffectiveness.

The effect of the proposed amendments would be to:

- introduce an exception to the principles of the hypothetical derivative method (IFRS 9 B6.5.5), which prohibit the replication on the hedged item of features that only exist in the hedging instrument. If the amendment is confirmed, a purchaser could designate as the hedged item the variable volume of renewable electricity that is produced by the seller's facility and that is used to calculate the price differentials in the hedging contract;
- introduce an exception to the March 2019 agenda decision on load following swaps (relating to paragraph 6.3.3. of IFRS 9), which prohibits the designation as a hedged item of an exposure with a variable notional amount, due primarily to the constraints imposed by strict application of the concept of "highly probable".

Disclosure requirements (IFRS 7, §42T-42W)

The proposed disclosure requirements are intended to enable users of financial statements to understand the effects of contracts for renewable electricity on the amount, timing and uncertainty of the entity's future cash flows.

An entity should disclose the following information for all its contracts for renewable electricity:

- the terms and conditions of the contracts, such as: their duration, their 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);
- for contracts not measured at fair value[1], either:
  - the fair value of the contracts at the reporting date, accompanied by the information required by paragraph 93(g)-(h) of IFRS 13[2]; or

[1] That meet the own use criteria and are not designated under the fair value option

[2] That is, for Level 3 fair values:

- a description of the valuation processes used by the entity (IFRS 13 para. 93(g))
- a description of the sensitivity of the fair value measurement to changes in unobservable inputs, if a change in the amount of those inputs might result in a significantly higher or lower fair value measurement (IFRS 13 para. 93(h)(i))
- the methods and assumptions used in preparing this information, including any changes since the previous reporting period and the reasons for such changes.

- the following information:
  - the volume of renewable electricity the entity expects to sell or purchase over the remaining duration of the contracts, broken down by maturity (less than one year; between one and five years; more than five years);
  - the methods and assumptions used in preparing this information, including any changes since the previous reporting period and the reasons for such changes.

In addition, the proposed amendments to IFRS 7 would require the following disclosures for the reporting period:

- for sellers: the proportion of renewable electricity to the total electricity sold;
- for purchasers:
  - the proportion of renewable electricity to the total volume of electricity purchased;
  - the total net volume of electricity purchased irrespective of the source of production;
  - the average market price per unit of electricity in the markets in which the entity purchased electricity; and
  - if the actual cost of purchasing electricity differed substantially from the hypothetical cost under market conditions (calculated by multiplying the net volume purchased by the average market price), a qualitative explanation for this difference.

Finally, the ED requires entities to consider the appropriate level of aggregation or disaggregation for presenting these disclosures.

Transition requirements (IFRS 9, §7.2.50 to 7.2.52)

An entity would be required to apply the proposed amendments as follows:

- **retrospectively** for the own-use requirements, in accordance with IAS 8, without requiring the entity to present comparative information for prior periods. The impacts of the amendments would thus be recognised in opening retained earnings for the first period of application;
- **prospectively** for the hedge accounting requirements. However, during the period of first application, the entity would be permitted to alter the designation of hedged items in already designated cash hedging relationships, without resulting in discontinuation of the hedging relationship. Although not explicitly stated in the ED, the impacts of the change on the effectiveness calculation would only be prospective, or in other words, it would not be possible to retrospectively restate ineffectiveness recognised prior to the date of initial application as an effective component of the pre-existing hedging relationship;
- The IASB also tentatively decided:
  - 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.

Effective date

The IASB is planning to publish the final amendments by the end of 2024. The ED asks commenters whether they think an effective date of 1 January 2025 would be appropriate. However, if this date is chosen, it may take until 2025 for the final amendments to be adopted by the European Parliament and Council, which is necessary before they can enter into force in the EU.

Technical update in Thailand
Sustainability

Webinar series "Perspectives on sustainability disclosure" and webcasts on "Current and anticipated financial effects"

The IFRS Foundation has established a new series of monthly webinars exploring key topics related to sustainability reporting aimed primarily at preparers. Each event will be available to join live or watch on demand. The first episode entitled "The business case for early adoption" was aired on 30 May 2024.

The IFRS Foundation has also published two webcasts to help explain the International Sustainability Standards Board's (ISSB) disclosure requirements related to the current and anticipated effects of sustainability-related risks and opportunities on a company's financial position, financial performance and cash flows. These webcasts are available here.

Transition to integrated reporting

The IFRS Foundation has released Transition to integrated reporting: A guide to getting started, to assist companies looking to apply both the IFRS Sustainability Disclosure Standards and the Integrated Reporting Framework.

The guide sets out a phased approach for implementing the Integrated Reporting Framework and how IFRS Sustainability Disclosure Standards can be incorporated in an integrated report.

ISSB Taxonomy webcast

Following last month's announcement of the publication of the ISSB Taxonomy, which is intended to enable investors and other stakeholders to search sustainability-related disclosures, the ISSB has recorded a short webcast summarising the key features and benefits of the taxonomy for investors, companies and regulators. The webcast and slides can be viewed here.

Latest jurisdictional developments in sustainability reporting

A number of jurisdictional consultations on adoption of sustainability reporting based on IFRS standards are ongoing. The most recent consultation are in:

- Brazil where consultation on technical standards based on IFRS S1 and S2 is open until 13 June 2024,
- South Korea where Exposure drafts of Korean Sustainability Disclosure Standards, also based on IFRS S1 and S2, have been issued, with a closing date for responses on 31 August 2024, and
- China, where the Chinese Ministry of Finance has published a consultation on "Corporate Sustainability Disclosure Standard—Basic Standard" with a comment period ending on 24 June 2024.

Meanwhile, the Stock Exchange of Hong Kong has introduced climate reporting requirements aligned with IFRS S2 which will be effective commencing on 1 January 2025 with mandatory disclosure of Scope 1 and 2 greenhouse gas emissions for "LargeCap Issuers" and comply or explain requirements for other disclosures.

The IFRS Foundation has also made IFRS S1 and S2 available in Simplified Chinese. The Standards have already been translated into Spanish, French, Japanese, Korean and Romanian.

ISSB May 2024 update

The ISSB Update for May provides summary of the recent ISSB meeting. No major decisions were made during the meeting, though the ISSB did decide to continue to use the existing SASB industry classification for its next two year work plan, and to consider enhancing the industry groupings when the SASB standards themselves are updated.

In the latest ISSB Podcast, the Chair and Vice-Chair discuss the publication of the IFRS Sustainability Disclosure Taxonomy and the interoperability guidance published by the ISSB and EFRAG (see the dedicated article in this issue) and look ahead to future publications including the final jurisdictional adoption guide and the feedback statement on its agenda consultation.

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