

# IASB/ ED/2024/3 Contracts for Renewable Electricity

Proposed amendments to IFRS 9 and IFRS 7

Exposure Draft issued by the IASB in May 2024

Comments from ACCA

24 July 2024

ACCA (the Association of Chartered Certified Accountants) is a globally recognised professional accountancy body providing qualifications and advancing standards in accountancy worldwide.

Founded in 1904 to widen access to the accountancy profession, we've long championed inclusion and today proudly support a diverse community of over **252,500** members and **526,000** future members in **180** countries.

Our forward-looking qualifications, continuous learning and insights are respected and valued by employers in every sector. They equip individuals with the business and finance expertise and ethical judgment to create, protect, and report the sustainable value delivered by organisations and economies.

Guided by our purpose and values, our vision is to develop the accountancy profession the world needs. Partnering with policymakers, standard setters, the donor community, educators and other accountancy bodies, we're strengthening and building a profession that drives a sustainable future for all. Find out more at: [www.accaglobal.com](http://www.accaglobal.com)

Further information about ACCA's comments on the matters can be requested from:

Aaron Saw

Head of Corporate Reporting Insights – Financial

[aaron.saw@accaglobal.com](mailto:aaron.saw@accaglobal.com)

ACCA



+44 (0)20 7059 5000



[info@accaglobal.com](mailto:info@accaglobal.com)



[www.accaglobal.com](http://www.accaglobal.com)



The Adelphi 1/11 John Adam Street London WC2N 6AU United Kingdom

## GENERAL COMMENTS

---

ACCA welcomes the opportunity to provide views in response to the IASB's exposure draft (ED) for *Contracts for Renewable Electricity*. Our response has been developed with the assistance of ACCA's Global Forum for Corporate Reporting.

Our general comments on the proposed amendments are as follows:

Our survey found that 53% of respondents have emissions plans in place to transition to a low carbon economy<sup>1</sup>. Unsurprisingly, more entities would be entering into contracts with power producers to secure supply of renewable electricity, to fix the price over the contract's duration and to help achieve their net zero goals.

Due to the nature of electricity that cannot be easily stored for later use or market structures that require the sale of excess electricity, the sale of unused electricity is unavoidable. The circumstances leading to sale of unused electricity is a key factor in determining whether an entity has purchased the electricity for own use.

Accounting for these contracts at fair value in all circumstances and recognising fair value changes in profit or loss for these contracts would not faithfully represent the actual situation.

Therefore, we support the proposed narrow-scope amendments that would permit entities to account for some of these contracts as executory contracts, subject to meeting specific circumstances, and clarifying the hedge accounting requirements.

Our detailed responses to the specific questions asked include suggestions for further clarifications and guidance that would help entities better understand and apply the amended requirements.

---

<sup>1</sup> ACCA, IFAC, PwC (2023), *The role of the CFO and finance function in the climate transition: driving value and sustainability*, <<https://www.accaglobal.com/uk/en/professional-insights/global-profession/climate-transition.html>>.

## RESPONSES TO SPECIFIC QUESTIONS RAISED

---

### QUESTION 1 – SCOPE OF THE PROPOSED AMENDMENTS

Paragraphs 6.10.1–6.10.2 of the proposed amendments to IFRS 9 would limit the application of the proposed amendments to only contracts for renewable electricity with specified characteristics.

Do you agree that the proposed scope would appropriately address stakeholders' concerns (as described in paragraph BC2 of the Basis for Conclusions on this Exposure Draft) while limiting unintended consequences for the accounting for other contracts? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

#### **ACCA response**

We agree with the scope of the proposed amendments.

As the proposals specifically address accounting for contracts for renewable electricity, we support the IASB in clarifying in paragraph 6.10.2 that these proposed amendments should not be applied by analogy to account for other types of contracts, to avoid unintended consequences.

We suggest the IASB define the meaning of several new terms, such as '*nature-dependent*' and '*renewable electricity*'.

We also suggest the IASB consider further clarifying paragraph 6.10.1(b) in circumstances where the entity is not the only customer to the '*referenced production facility*' and therefore does not purchase all the renewable electricity produced by the facility.

### QUESTION 2 – PROPOSED 'OWN-USE' REQUIREMENTS

Paragraph 6.10.3 of the proposed amendments to IFRS 9 includes the factors an entity would be required to consider when applying paragraph 2.4 of IFRS 9 to contracts to buy and take delivery of renewable electricity that have specified characteristics.

Do you agree with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

#### **ACCA response**

The proposed paragraph 6.10.3 provides guidance on determining whether electricity is purchased for own use. We suggest the IASB clarify whether the '*entity's expected purchase or usage requirements*' include periods where electricity

is not expected to be used, such as non-working days, holidays and non-business hours.

This clarification is important as paragraph 6.10.1(b) states *'contract exposes the purchaser to substantially all the volume risk under the contract through 'pay-as-produced' features. Volume risk is the risk that the volume of electricity produced does not align with the purchaser's demand for electricity at the time of production.'*

That means the entity may need to sell the unused electricity if the delivery is not matched to its usage requirements.

We also suggest the IASB clarify whether the assessment for own use should be conducted at individual contract level.

### **QUESTION 3 – PROPOSED HEDGE ACCOUNTING REQUIREMENTS**

Paragraphs 6.10.4–6.10.6 of the proposed amendments to IFRS 9 would permit an entity to designate a variable nominal volume of forecast electricity transactions as the hedged item if specified criteria are met and permit the hedged item to be measured using the same volume assumptions as those used for measuring the hedging instrument.

Do you agree with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

#### **ACCA response**

We support the proposals that cover both sellers and purchasers of renewable electricity.

In view of the long duration of contracts for renewable electricity, we suggest providing further guidance for applying the requirement in paragraph 6.10.4(b) to evaluate *'volume of future electricity transactions that are highly probable'*.

### **QUESTION 4 – PROPOSED DISCLOSURE REQUIREMENTS**

Paragraphs 42T–42W of the proposed amendments to IFRS 7 would require an entity to disclose information that would enable users of financial statements to understand the effects of contracts for renewable electricity that have specified characteristics on:

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

Do you agree with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

## ACCA response

We suggest the IASB clarify whether information in the proposed paragraphs 42T – 42W of IFRS 7 are required for:

- all contracts that have characteristics in paragraph 6.10.1 of IFRS 9, or
- only for contracts that have characteristics in paragraph 6.10.1 and are accounted for using paragraphs 6.10.2 – 6.10.6 of IFRS 9.

The former would likely cover all forms of contracts for renewable electricity regardless of how they are accounted for. Meanwhile, the latter seems consistent with the IASB's intention to propose narrow-scope amendments in this ED. If the IASB intends for the former, we wonder if IFRS 7 is the right standard to place these disclosure requirements. Having said that, we acknowledge there isn't another IFRS Accounting standard that would fit. This conundrum perhaps indicates the importance of accelerating the IASB's *pollutant pricing mechanism* project that is in the pipeline.

We believe information about remaining contract duration, the type of pricing, and minimum or maximum volume are important for users to understand how these contracts affect the amount, timing and uncertainty of the entity's future cash flows. Thus, we support the proposal in paragraph 42T(a).

For contracts that are not measured at fair value through profit or loss, we disagree with the proposed paragraph 42T(b)(i) of IFRS 7 that requires entities to disclose the fair value of the contracts at the reporting date. This proposal is disproportionate to the information required for other contracts that meet the own-use requirements.

The information proposed in paragraphs 42U and 42V of IFRS 7 appears to be more suitable for sustainability-related disclosures. However, this is a step towards connecting an entity's management of its sustainability-related risks and opportunities with its financial performance. In particular, providing qualitative explanation required by paragraph 42V(d) would enable users to understand whether purchasing renewable electricity has increased or reduced the entity's total cost for electricity. Although this could be annual information, the proposed paragraph 42W allows entities to provide further information to help users understand the financial effects over a period, such as a trend analysis of cost for renewable electricity compared to total electricity cost at market price. On balance, we are supportive of the proposed disclosure.

When coupled with the disclosure objective in paragraph 42T, the requirements proposed in paragraph 42W encourage entities to consider the extent of information to be provided and whether additional qualitative information would help users understand the quantitative information that needs to be disclosed. However, the requirements proposed in paragraph 42W are mostly similar to the requirements in paragraph B3 of IFRS 7. Instead of creating a new paragraph, we suggest adding this portion from paragraph 42W to paragraph B3: *'[...] whether users of financial statements need additional explanations to evaluate the quantitative information the entity has disclosed. For example, an entity need not disclose information for each contract separately. An entity also need not duplicate information that is already disclosed in accordance with other IFRS Accounting Standards'*. We believe these

requirements that aim to provide users with an appropriate level of information also apply to other contracts.

## **QUESTION 5 – PROPOSED DISCLOSURE REQUIREMENTS FOR SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY**

Paragraphs 67A–67C of the proposed amendments to the forthcoming IFRS 19 *Subsidiaries without Public Accountability*: Disclosures would require an eligible subsidiary to disclose information about its contracts for renewable electricity with specified characteristics.

Do you agree with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

### **ACCA response**

Our comments to question 4 apply to the proposed paragraphs 67A – 67C of IFRS 19 to the extent that the requirements are the same.

The requirements proposed in paragraph 42W of IFRS 7 would also be applicable to subsidiaries without public accountability. In particular, in considering the extent of information to be provided and whether additional qualitative information would help users understand the quantitative information that needs to be disclosed. We suggest the IASB review paragraph 6 of IFRS 19 which has a similar effect and consider amending that paragraph with elements proposed in paragraph 42W of IFRS 7. See our comments to question 4.

## **QUESTION 6 – TRANSITION REQUIREMENTS**

The IASB proposes to require an entity to apply:

- a) the amendments to the own-use requirements in IFRS 9 using a modified retrospective approach; and
- b) the amendments to the hedge accounting requirements prospectively.

Early application of the proposed amendments would be permitted from the date the amendments were issued.

Do you agree with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

### **ACCA response**

The transition approaches proposed in the ED for both own-use requirements and hedge accounting requirements are pragmatic. We also support permitting early

application of the proposed amendments from the date the amendments were issued to accommodate entities that are ready.

We suggest providing transition requirements for in-scope contracts that meet the own-use exception when applying the proposed amendments but were previously accounted for as cash flow hedge.

## **QUESTION 7 – EFFECTIVE DATE**

Subject to feedback on the proposals in this Exposure Draft, the IASB aims to issue the amendments in the fourth quarter of 2024. The IASB has not proposed an effective date before obtaining input about the time necessary to apply the amendments.

In your view, would an effective date of annual reporting periods beginning on or after 1 January 2025 be appropriate and provide enough time to prepare to apply the proposed amendments? Why or why not?

If you disagree, what effective date would you suggest instead and why?

### **ACCA response**

Entities would need to familiarise themselves with the proposed amendments, evaluate existing contracts and to modify or implement new processes to account for contracts for renewable electricity. There are jurisdictions where contracts for renewable electricity are not yet common.

Therefore, the proposed amendments should become effective at least one year after they have been issued. Meanwhile, entities that are ready should be permitted to apply the proposed amendments earlier.