ACCOUNTANCY EUROPE.

Mr. Andreas Barckow
IASB Chair
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Mr. Wolf Klinz
Chair of the EFRAG Financial Reporting Board
EFRAG
Square de Meeûs 35 B
1000 Brussels
Belgium

Submitted via website
Brussels, 19 July 2024

Subject: Exposure Draft: Contracts for Renewable Electricity

Dear Mr. Barckow,

Dear Mr. Klinz,

We are pleased to respond to the International Accounting Standards Board (IASB or the Board) Exposure Draft: Contracts for Renewable Electricity as well as the EFRAG Draft Comment Letter (DCL) thereon.

We appreciate the IASB efforts that resulted in this ED within a short period of time. This topic is increasingly prevalent therefore it is key to address it in a timely manner. To a large extent we are supportive of the direction of travel in the ED.

SCOPE, OWN-USE REQUIREMENTS AND HEDGING REQUIREMENTS

We generally agree with the amendments. We however point out few areas for improvements as detailed below in the Annex 1 of this letter.

DISCLOSURES REQUIREMENTS

We are less supportive of the proposed disclosures requirements mainly for 3 reasons:

- We are not sure to understand how some of the proposed requirements meet the announced disclosure objectives. We consider that some of the proposed requirements relate more to sustainability reporting or management commentary than financial reporting.

- We have identified some redundancies between the disclosures required by the proposed amendment and already existing requirements of IFRS 7 and IFRS 13 on financial instruments measured at fair value. We also have some concerns on the cost / benefit ratio of some requirements (e.g. level of detailed information required for instrument in the scope of paragraph 6.10.1 but that would not actually benefit from the amendment).

- More generally we found disproportionate the quantity of information required compared to the other contracts classified as “own-use” without being in the scope of this amendment.

For all these reasons we recommend simplifying and downsizing these disclosure requirements.

We kindly refer to Annex 1 and Annex 2 of this letter for our detailed responses.

Please do not hesitate to contact Nael Braham (nael@accountancyeurope.eu) in case of any questions or remarks.

Sincerely,

Olivier Boutellis-Taft
Chief Executive Officer

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 50 professional organisations from 35 countries that represent close to 1 million professional accountants, auditors, and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX 1: IASB ED – QUESTIONS FOR RESPONDENTS

We are pleased to present below our detailed responses to the questions raised in the IASB's Exposure Draft (ED) on Contracts for Renewable Electricity.

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?*

(1) We generally agree with the scope of the amendments. We however point out a few areas for improvements as detailed below.

(2) We note that the proposed amendment does not consider the accounting treatment of RECs (Renewable Energy Certificate). We understand that this decision has been mainly driven by the objective to address the issues related to energy contracts in a timely manner. While we agree with this prioritisation, we encourage the Board to consider providing clarification on the accounting for RECs in a future project.

(3) We also have some reservations regarding the notion of "*exposes the purchaser to substantially all the volume risk*" used in 6.10.1(b). The concept of "substantially all" is already used in the analysis of asset derecognition and results in practice in a very high threshold. We question whether such a high threshold is really required or if a lower one could be suitable. In some situations, the allocation of the uncertainty can be mitigated by cap and/or floor mechanisms that limit the exposure to the uncertainty without removing it fully. We fear that, with such a high threshold, this condition would result in the exclusion of certain contracts from the scope, which is not our understanding of the IASB's intention. We therefore recommend to the Board to consider a lower threshold.

(4) There are various ways and structures in place across countries and we therefore welcome the Board proposal to consider the purpose and design of the PPA contract. We consider that the "design and operation of the market" is also a relevant concept to include to help addressing some legal and operational constraints of markets. Many markets require the use of intermediaries (e.g. to facilitate the transfer to and from the grid), we therefore encourage the Board to explicit that their role has to be considered in the context of the specific market structure for the purpose of the assessments to be performed in the context of this amendment.

(5) We have seen many situations where, after entering into a "pay as produced" PPA contract that triggers an exposition to volume risk as defined by the exposure draft, the entity then enters into an agreement with another counterparty in order to shift its economic exposure from "as produced" to "as contracted". Such contract does not modify the expected "bell profile" of the production but transfers the uncertainty of the nature dependant feature to a third party. We consider that such agreement shouldn't be a reason to exclude the initial PPA agreement from the scope of the ED. In order words, we suggest to the Board to clarify that the volume risk is a characteristic of the energy contract assessed but does not have to be retained by the purchaser. This means that risk management decisions to monitor the volume risk should not lead to an exclusion of the initial energy contract from the scope of this proposed amendment. Such clarification could be articulated with an explanation of how the notion of "substantially all" would be applied in such situations.

(6) We also would like to suggest a clarification in the drafting of paragraph 6.10.1 which refers to "contracts for renewable electricity" intended to capture both physically settled contracts and net settled contracts. Physical contracts are for the delivery of renewable electricity and so are appropriately described as a "contract for renewable electricity", however, for net settled contracts, renewable electricity is merely a referenced underlying

and is not appropriately described as a "contract for renewable electricity" and could therefore give rise to confusion. We would suggest referring to the contracts collectively as "contracts referencing renewable electricity".

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?*

(7) In general, we support these proposals.

(8) The general purpose of these proposals is to provide an amendment to the "own use" qualification for contracts meeting the conditions described in the scope of the ED. Paragraph 6.10.3 (a) is detailing principles to be applied in order to perform the assessment of future volumes. We wonder whether this paragraph actually introduces a concept that is specific to instruments in the scope of the amendment. Typically relying on reliable and supportable information is not something that should be limited to the instruments in the scope of the amendment. We therefore recommend to the Board to explicit how this paragraph articulates with own-use analysis that are not in the scope of the amendment. Furthermore, we agree that paragraph 6.10.2 applies for example to paragraph 6.10.3 (b) but we consider that paragraph 6.10.3(a) contains elements that shall not be presented as "not applicable" to own use analysis out of the scope of the amendment.

(9) The criteria in paragraph 6.10.3(b)(ii) only refers to broad market factors but does not consider entity specific factors which are relevant in assessing whether a contract to purchase electricity is for own use purposes. Some of our members consider that it would be relevant to consider as well whether the entity has the practical ability to store the electricity it receives rather than sell the electricity. They suggest revising the proposed text as follows:" design and operation of the market in which the electricity is sold, and the entity's specific facts and circumstances, results in the entity being required to sell the electricity that it cannot use and not having the practical ability to determine the timing or price of the sale".

(10) We welcome the principle introduced by the Board to the approach in paragraph 6.10.3 b (iii). We consider that this element is key to appropriately address the characteristics of Renewable Energy contracts and consider in particular seasonality in the energy production and consumption. However, we consider that the example of "one month" could be interpreted as a maximum threshold that could prevent to address some seasonality issues. We therefore recommend to the Board to focus on general principles.

(11) During the discussion in preparing this amendment, the IASB Staff prepared a numerical example to further illustrate how the analysis of paragraph 6.10.3(iii) criterion could be implemented. In our view, it could be helpful to include this numerical example as an illustrative guidance to this amendment to help indicating the level to which an entity is allowed to buy and repurchase electricity while remaining under the scope of the own use requirements.

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?*

(12) In general, we support these proposals.

(13) We encourage the Board to address more broadly the so-called "load following swap" issue that is addressed in a limited way in the context of this narrow scope amendment. However, that would deserve a wider consideration to fix situations in which the hedge is economically perfect by construction but where the hedge accounting cannot be implemented due to the highly probable criterion. Indeed, what an entity is trying to hedge in such situation is not the risk associated with the quantity, but the risk associated to the price. We understand the Board decision not to address this issue comprehensively in the context of issuing this amendment promptly. But we strongly recommend to the Board to consider this issue in the upcoming Post Implementation Review of IFRS 9 hedging requirements.

(14) We note that defining the hedged exposure item by reference to a characteristic of the hedging instrument is a deviation from general hedge accounting principle, but we agree that it is the relevant approach to implement in this specific situation. However, as this concept is really new and may raise questions on the hedging documentation and the related effectiveness tests, we encourage the Board to consider including a comprehensive illustrative example on such new hedge accounting relationship.

(15) The requirement to consider the volume of future energy transactions that are highly probable in paragraph 6.10.4(b) is consistent with the current hedge accounting requirements of IFRS 9. We agree with the Board proposal to maintain it on the purchaser side. Nevertheless, some of our members consider that it may have to be adapted to cope with the difficulty in making a detailed estimate of electricity consumption in periods that are far into the future. These members suggest a consistent approach in the assessment of the level of electricity consumption that is highly probable and the proposals in paragraph 6.10.3(a) for the 'own use' assessment. Under such an approach, the time-period over which to assess whether consumption is highly probable is not a fixed period but depends on the time horizon. For example, it might be a one-month time horizon for electricity that will be delivered imminently, but an annual time horizon for electricity that will be delivered further in the future under the contract.

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?*

(16) We are less supportive of the proposed disclosures requirements. We recommend simplifying and downsizing these disclosure requirements for several reasons:

(17) We are not sure to understand how the proposed requirements meet the disclosure objectives mentioned in paragraph 42T. We encourage the Board to better link the disclosure requirements with this objective. Specifically, the requirement of paragraph 42U (proportion of renewable energy) does not seem to be useful in addressing the disclosure objective. Such requirement relates more to sustainability reporting or management commentary than financial reporting,

(18) For contracts that will be measured at fair value on the balance sheet, we note that information required by the proposed amendment is to a certain extent redundant with the information already required by IFRS 7 and IFRS 13.

(19) We understand and support the principle that any exception shall come with appropriate disclosures. However, we found that the level of details of the required disclosure is significant and disproportionate compared to the

disclosure requirements that applies to other contracts qualified as own use outside the scope of this amendment. One could also question the merits of providing information on contracts that meet the definition of paragraph 6.10.1 but does not benefit from the amendment exemptions (because they both fail the own-use qualification and are not part of a hedging relationship).

(20) Finally, another example of potential simplification could be to require the information listed in paragraph 42V only if the entity does not provide the fair value of the contract (either as a measurement on the balance sheet or a disclosure in accordance with paragraph 42T). We acknowledge that paragraph 42V is focusing on qualitative information about the impact over the period whereas the fair value brings quantitative information about future periods. But some of our members considered that if the fair value of the contracts is provided, paragraph 42V does not present a beneficial cost/benefit ratio.

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?*

(21) We generally agree with the approach proposed by the Board. We nevertheless would like to draw the attention of the Board on two issues below.

(22) The first one is to consider allowing retrospective application of hedge accounting for renewable electricity contracts. As soon as the perfect matching of the quantity between the hedging instrument and the hedged item is acknowledged we do not understand why an entity would be prevented from applying it retrospectively. This should be an accounting policy choice to avoid any “contract by contract” insights.

(23) The second one is a consequence of the first. Consider a situation where the entity previously designated the hedged item as a fixed quantity, triggering ineffectiveness. Consider then that the entity will amend the designation of the hedged item as proposed by paragraph 7.2.52. The question is how the entity will design the hypothetical derivative and recycle the amount accumulated in OCI as the two elements will have mismatches represented the previously recognised ineffectiveness that would not have occurred if the entity had the possibility to apply the amendment from the inception of the hedging relationship.

ANNEX 2: EFRAG DCL – QUESTIONS TO CONSTITUENTS

We are pleased to provide below our detailed responses to the questions to constituents in EFRAG's DCL on Contracts for Renewable Electricity.

Question to Constituents (paragraph 13-15 of the DCL)

Question 1.1: Are you aware of power purchase agreements (PPAs) where there is uncertainty of whether the agreement meets or fails the requirements in the proposed text in paragraph 6.10.1 of the ED? If so, please provide a description of these PPAs and let us know if these are prevalent.

Question 1.2: Do you consider appropriate using the term 'renewable electricity' in the proposed amendments taking into account that:

- the term 'renewable' is not defined in the ED;

- the RECs (or similar certificates) are not considered within the proposed amendments. Why or why not? Do you foresee any challenges if the term 'renewable' is omitted and the proposals only refer to "electricity"?

Question 1.3: Paragraph 6.10.1(a) of the ED provides a non-exhaustive list of sources of production of nature-dependent renewable electricity including wind, sun and water.

Should the proposed amendments instead include a complete list of sources of production to make the narrow-scope proposals clear and specific?

Please refer to paragraphs 1-6 above.

Question to Constituents (paragraph 27 of the DCL)

Do you agree with the requirements related to the own-use exception for the specific contracts in scope of the ED? Do you foresee any adverse economic consequences in short, medium or long term?

Please refer to paragraphs 7-11 above.

Question to Constituents (paragraph 35-37 of the DCL)

Question 3.1: As a producer of electricity that may be sold in a contract within the scope of paragraph 6.10.1 of the ED, have you identified issues preventing you from using hedge accounting for contracts within the scope of paragraph 6.10.1 of the ED? If so, please explain.

Question 3.2: As a purchaser of electricity in a contract within the scope of paragraph 6.10.1 of the ED do you expect that the regulation in paragraphs 6.10.4 and 6.10.6 of the ED will allow you to perform more hedge accounting in the future? If not, please explain why.

Queston 3.3: If you are aware of any other features of the relevant contracts which are prevalent and are not currently addressed in the ED, please provide the description of those features and where the application uncertainty is.

Please refer to paragraphs 12-15 above.

Question to Constituents (paragraph 47-48 of the DCL)

Question 4.1: Do you see a need for the additional disclosure related to the contracts in scope of the ED in case where such contracts are measured at fair value through profit or loss or are designated in the cash flow relationship or do you deem that the current disclosure requirements in IFRS 7 and IFRS 13 are sufficient?

Question 4.2: Do disclosures required for contracts for renewable electricity that qualify for own purposes strike the right cost-benefit balance between users' needs and preparers' costs for obtaining such information?

Please refer to paragraphs 16-20 above.

Question to Constituents (paragraph 64 of the DCL)

> *Question 7.1: Do you agree with the IASB's proposed effective date considering the endorsement process in the EU and considering that some EU entities are also foreign public issuers subject to the IFRS requirements in other jurisdictions? Why or why not?*

Please refer to paragraphs 21-23 above.