

Contracts Referencing Nature-dependent Electricity: Tier 2 Disclosures

Comments to the AASB by 20 May 2025



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 20 May 2025.

Formal submissions

Submissions should be lodged online via the “Current Projects – Open for Comment” page of the AASB website (www.aasb.gov.au/current-projects/open-for-comment) as a PDF document and, if possible, a Word document (for internal use only).

Other feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aaasb.gov.au

Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards. The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*. AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of Australian Accounting Standards.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Why we are making these proposals

In February 2025, the AASB issued AASB 2025-1 *Amendments to Australian Accounting Standards – Contracts Referencing Nature-dependent Electricity*. Nature-dependent electricity contracts help entities to secure their electricity supply from sources such as wind and solar power. The amount of electricity generated under these contracts can vary based on uncontrollable factors such as weather conditions.

AASB 2025-1 amends AASB 7 *Financial Instruments: Disclosures* and AASB 9 *Financial Instruments* to allow entities to better reflect these contracts in the financial statements. The amendments:

- (a) clarify the application of the 'own-use' criteria to nature-dependent electricity contracts;
- (b) permit hedge accounting if these contracts are used as hedging instruments; and
- (c) add new disclosure requirements to enable users of financial statements to better understand the effect of these contracts on an entity's financial performance and cash flows.

When developing AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, the AASB considered that users of the financial statements of Tier 2 entities were particularly interested in information about short-term cash flows and obligations, commitments or contingencies, liquidity and solvency, measurement uncertainties, accounting policy choices and disaggregation of amounts presented in the financial statements.

The AASB considers whether to add to or amend disclosure requirements in AASB 1060 when the International Accounting Standards Board makes amendments to full IFRS Standards or when additional disclosures are added to Australian Accounting Standards.

What we are proposing

The AASB considered the new disclosure requirements added to AASB 7 by AASB 2025-1 and proposes that only some of those disclosure requirements should apply to Tier 2 entities. A high-level summary of those disclosure requirements is presented in the table below:

Tier 1 full disclosure requirements (AASB 7)	Proposed Tier 2 simplified disclosure requirements
<p>For contracts referencing nature-dependent electricity meeting the ‘own-use’ criteria and recognised as procurement contracts, Tier 1 entities shall disclose:</p> <p>(a) information about its contract features exposing the entity to electricity variability and the risk of unused electricity at the time of delivery;</p> <p>(b) information about the unrecognised commitments arising from these contracts, including the estimated future cash flows and qualitative information about how the entity assesses whether a contract might become onerous; and</p> <p>(c) qualitative and quantitative information about effects on the entity’s financial performance, including the costs arising from these contracts, the amount of unused electricity purchased under the contracts, the proceeds arising from sales of unused electricity and the costs to buy additional electricity.</p>	<p>For contracts referencing nature-dependent electricity meeting the ‘own-use’ criteria and recognised as procurement contracts, Tier 2 entities would disclose:</p> <p>(a) information about its contract features exposing the entity to electricity variability and the risk of unused electricity at the time of delivery;</p> <p>(b) qualitative information about how the entity assesses whether a contract might become onerous; and</p> <p>(c) qualitative information about the effects on the entity’s financial performance.</p>
<p>For contracts referencing nature-dependent electricity that are designated in a cash flow hedging relationship, Tier 1 entities are required to disaggregate the quantitative information about the terms and conditions of hedging instruments disclosed for those contracts by risk category under the existing AASB 7 disclosure requirements (paragraph 23A).</p>	<p>The AASB proposes not to include additional disclosure requirements relating to cash flow hedges in AASB 1060.</p>
<p>If Tier 1 entities disclose information about other contracts referencing nature-dependent electricity in other notes in the financial statements, they shall include cross-references to those notes in their single note for the contracts recognised as procurement contracts.</p>	<p>The AASB proposes not to add specific cross-referencing requirements for contracts referencing nature-dependent electricity to AASB 1060.</p>

In assessing each Tier 1 disclosure requirement, the AASB considered the potential costs for preparers and Australian Tier 2 user needs. The AASB noted:

- (a) for contracts referencing nature-dependent electricity that are recognised as procurement contracts – the following quantitative disclosure requirements may be excessive for some Australian Tier 2 entities, particularly those with limited resources:
 - (i) estimated future cash flows; and
 - (ii) quantitative information about the effects on the entity’s financial performance, including the costs arising from these contracts, the amount of unused electricity purchased under the contracts, the proceeds arising from sales of unused electricity and the costs to buy additional electricity;
- (b) for contracts referencing nature-dependent electricity that are designated in a cash flow hedging relationship – when AASB 1060 was developed, there was a significant reduction in disclosure requirements for hedge transactions, and so the AASB proposes to leave these requirements unchanged; and
- (c) for the requirement to cross-reference between notes – since AASB 1060 includes general requirements to cross-reference the items in the financial statements to related information in the notes, but does not require cross-referencing between notes, the AASB proposes to retain this approach and not require note cross-referencing in respect of contracts referencing nature-dependent electricity.

The AASB also proposes the same transitional relief regarding comparative disclosures on the initial application of the proposed Tier 2 disclosures as set out in AASB 2025-1 for the initial application of the new disclosure requirements in AASB 7 for Tier 1 general purpose financial statements. Therefore, the Exposure Draft proposes to not require:

- (a) comparative disclosures on initial application of the Tier 2 disclosure requirements; and
- (b) the quantitative information that would otherwise be required by paragraph 106(b) of AASB 1060, which specifies disclosure for the current period and each prior period presented of the amount of the adjustments for each financial statement line item affected by a change in accounting policy.

This Exposure Draft proposes numbering the disclosure requirements for contracts referencing nature-dependent electricity and transitional relief in AASB 1060 as paragraphs 122A–122B, with a sub-heading ‘Contracts referencing nature-dependent electricity’. To accommodate this, the “Other Financial Instrument Issues – Hedging Disclosures” heading would be amended to present “Hedging disclosures” as a sub-heading above paragraph 120.

Application date

It is proposed the amendments would apply to annual periods beginning on or after 1 January 2026, with earlier application permitted.

What happens next

The AASB will consider feedback on this Exposure Draft at future meetings and, based on the information received, will determine whether the proposals should be implemented, with or without amendment. Depending on the nature and extent of the feedback, the AASB may publish a Fatal-Flaw Review Draft to enable further consultation with stakeholders.

We need your feedback

Comments are invited on any of the proposals in this Exposure Draft by 20 May 2025. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Specific matters for comment

The AASB would particularly value comments on the following:

- 1 For contracts referencing nature-dependent electricity that are recognised as procurement contracts, do you agree that Tier 2 entities should disclose:
 - (a) information about its contract features exposing the entity to electricity variability and the risk of unused electricity at the time of delivery;
 - (b) qualitative information about how the entity assesses whether a contract might become onerous; and
 - (c) qualitative information about the effects on the entity’s financial performance?If you disagree, please explain why.
- 2 For contracts referencing nature-dependent electricity that are recognised as procurement contracts, do you agree that Tier 2 entities should not be required to disclose additional information about:
 - (a) estimated future cash flows; and
 - (b) quantitative information about the effects on the entity’s financial performance, including the costs arising from these contracts, the amount of unused electricity purchased under the contracts, the proceeds arising from sales of unused electricity and the costs to buy additional electricity?If you disagree, please explain why.
- 3 For contracts referencing nature-dependent electricity that are designated in a cash flow hedging relationship, do you agree that Tier 2 entities should not be required to disclose additional information about these contracts? If you disagree, please explain why.
- 4 Do you agree that Tier 2 entities should not be required to cross-reference from their single note about contracts referencing nature-dependent electricity that are recognised as procurement contracts to any other notes that refer to other contracts referencing nature-dependent electricity contracts? If you disagree, please explain why.
- 5 For transition, do you agree that Tier 2 entities should not be required to disclose:
 - (a) comparative disclosures on the initial application of the Tier 2 disclosure requirements; and

(b) the quantitative information that would otherwise be required by paragraph 106(b) of AASB 1060?
If you disagree, please explain why.

6 Do you have any other comments on the proposals?

General matters for comment

The AASB would also particularly value comments on the following general matters:

7 Have the *AASB For-Profit Entity Standard-Setting Framework* and the *AASB Not-for-Profit Entity Standard-Setting Framework* been applied appropriately in developing the proposals in this Exposure Draft?

8 Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?

9 Do the proposals create any auditing or assurance challenges and, if so, please explain those challenges?

10 Would the proposals result overall in financial statements that are useful to users?

11 Are the proposals in the best interests of the Australian economy?

12 Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative, and are they appropriate relative to the existing requirements? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

Contents

PREFACE

**[DRAFT] ACCOUNTING STANDARD
AASB 2025-X AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – CONTRACTS
REFERENCING NATURE-DEPENDENT ELECTRICITY: TIER 2 DISCLOSURES**

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[DRAFT] BASIS FOR CONCLUSIONS

[Draft] Australian Accounting Standard AASB 2025-X Amendments to Australian Accounting Standards – Contracts Referencing Nature-dependent Electricity: Tier 2 Disclosures is set out in paragraphs 1–7. All the paragraphs have equal authority.

Preface

Standards amended by AASB 2025-X

This [draft] Standard makes amendments to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020).

Main features of this Standard

Main requirements

AASB 2025-1 *Amendments to Australian Accounting Standards – Contracts Referencing Nature-dependent Electricity* amended AASB 7 *Financial Instruments: Disclosures* and AASB 9 *Financial Instruments* to allow entities to better reflect nature-dependent electricity contracts in the financial statements. Nature-dependent electricity contracts help entities to secure their electricity supply from sources such as wind and solar power. The amount of electricity generated under these contracts can vary based on uncontrollable factors such as weather conditions.

AASB 2025-1 amended requirements to:

- (a) clarify the application of the ‘own-use’ criteria to nature-dependent electricity contracts;
- (b) permit hedge accounting if these contracts are used as hedging instruments; and
- (c) add new disclosure requirements to enable users of financial statements to better understand the effect of these contracts on an entity’s financial performance and cash flows.

This [draft] Standard amends AASB 1060 to require a Tier 2 entity to disclose information about nature-dependent electricity contracts that meet the ‘own-use’ criteria and are recognised as procurement contracts. Only some of the disclosure requirements added by AASB 2025-1 to AASB 7 for Tier 1 entities are extended to Tier 2 entities.

Application date

This [draft] Standard applies to annual periods beginning on or after ... [1 January 2026], with earlier application permitted.

[Draft] Accounting Standard AASB 2025-X

The Australian Accounting Standards Board makes [draft] Accounting Standard AASB 2025-X *Amendments to Australian Accounting Standards – Contracts Referencing Nature-dependent Electricity: Tier 2 Disclosures* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Keith Kendall
Chair – AASB

[Draft] Accounting Standard AASB 2025-X *Amendments to Australian Accounting Standards – Contracts Referencing Nature-dependent Electricity: Tier 2 Disclosures*

Objective

- 1 This [draft] Standard amends AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020) to require a Tier 2 entity to disclose information about nature-dependent electricity contracts that meet the ‘own-use’ criteria and are recognised as procurement contracts.
- 2 This amendment reflects the issuance of AASB 2025-1 *Amendments to Australian Accounting Standards – Contracts Referencing Nature-dependent Electricity*, which amended AASB 7 *Financial Instruments: Disclosures* (August 2015) and AASB 9 *Financial Instruments* (December 2014), and extends some of the new disclosure requirements to Tier 2 entities.

Application

- 3 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of AASB 1060 set out in AASB 1057 *Application of Australian Accounting Standards*.
- 4 This Standard applies to annual periods beginning on or after ... [1 January 2026]. Earlier application is permitted.

Amendments to AASB 1060

- 5 The heading above paragraph 120 is amended and a new sub-heading added, to read as follows:

Other Financial Instrument Issues¹¹

Hedging disclosures

- 6 Paragraphs 122A–122B and a related heading are added as follows:

Contracts referencing nature-dependent electricity

122A 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. For contracts to buy nature-dependent electricity that are outside the scope of AASB 9 in accordance with paragraphs B2.7–B2.8 of AASB 9, an entity shall disclose in a single note in its financial statements:

- (a) information about contractual features that expose the entity to:
 - (i) variability in the underlying amount of electricity; and

- (ii) the risk that the entity would be required to buy electricity during a delivery interval in which the entity cannot use the electricity (see paragraph B2.7 of AASB 9);
 - (b) qualitative information about how the entity assesses whether a contract might become onerous (see AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*), including the assumptions the entity uses in making this assessment; and
 - (c) qualitative information about the effects on the entity's financial performance for the reporting period.
- 122B In applying paragraph 122A, an entity is not required to disclose:
- (a) comparative information for any reporting periods presented before the beginning of the annual reporting period in which the entity first applies those requirements; and
 - (b) the quantitative information that would otherwise be required by paragraph 106(b).

Commencement of the legislative instrument

7 For legal purposes, this legislative instrument commences on ... [31 December 2025].

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 2025-X Amendments to Australian Accounting Standards – Contracts Referencing Nature-dependent Electricity: Tier 2 Disclosures.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in the Exposure Draft. It sets out the reasons why the Board developed the Exposure Draft, the approach taken to developing the Exposure Draft and the bases for the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Background

Tier 1 amendments

BC2 In February 2025, the Board issued AASB 2025-1 *Amendments to Australian Accounting Standards – Contracts Referencing Nature-dependent Electricity*. Nature-dependent electricity contracts help entities to secure their electricity supply from sources such as wind and solar power. The amount of electricity generated under these contracts can vary based on uncontrollable factors such as weather conditions. AASB 2025-1 amends AASB 7 *Financial Instruments: Disclosures* and AASB 9 *Financial Instruments* to allow entities to better reflect these contracts in the financial statements. The amendments:

- (a) clarify the application of the ‘own-use’ criteria to nature-dependent electricity contracts;
- (b) permit hedge accounting if these contracts are used as hedging instruments; and
- (c) add new disclosure requirements to enable users of financial statements to better understand the effect of these contracts on an entity’s financial performance and cash flows.

BC3 These amendments arose from the issuance of International Financial Reporting Standard *Contracts Referencing Nature-dependent Electricity* (Amendments to IFRS 9 and IFRS 7) by the International Accounting Standards Board (IASB) in December 2024.

Relevance of the amendments to AASB 1060

BC4 The *AASB For-Profit Entity Standard-Setting Framework* and the *AASB Not-For-Profit Entity Standard-Setting Framework* outline the approach adopted by the Board for considering whether to add to or amend disclosure requirements in AASB 1060 when the IASB makes amendments to full IFRS Standards. The Board also considers whether to add disclosure requirements to AASB 1060 when additional disclosures are added to other Australian Accounting Standards.

BC5 The standard-setting frameworks first consider whether the amendments introduce a significant recognition and measurement difference between full IFRS Standards and the *IFRS for SMEs Accounting Standard*. If they do not, the standard-setting frameworks state that no further action is required unless the disclosure is of particular relevance in the Australian environment or addresses a matter of public policy, or the amendments clarify or reduce existing disclosure requirements in full IFRS Standards.

BC6 The Board noted that the amendments to AASB 9 both clarify the application of existing recognition and measurement requirements and make narrow-scope changes to how some requirements are applied. However, the Board considered that the amendments did not significantly affect or introduce any new significant recognition and measurement differences between full IFRS Standards and the *IFRS for SMEs Accounting Standard*.

BC7 The Board also noted that the disclosure requirements in AASB 7 were amended for several reasons:

- (a) contracts referencing nature-dependent electricity (‘eligible contracts’) that are recognised as procurement contracts – disclosures would be useful to financial statement users as the disclosures would provide information about the entity’s short-term cash flow commitments, liquidity and measurement uncertainties;

- (b) eligible contracts that are designated in a cash flow hedging relationship – to clarify the application of the existing disclosure requirements for all hedge transactions; and
- (c) the requirement to cross-reference between financial statement notes – cross-referencing is useful for entities holding multiple contracts referencing nature-dependent electricity that are recognised in an entity’s financial statements in different ways, in accordance with the Standards.

The feedback from Australian users (predominantly representing Tier 1 entities) supported the need for these disclosures.

BC8 Although the Board has not received any feedback on whether these disclosures are of similar importance to users of Tier 2 financial statements, the Board considered the principles it used when developing AASB 1060 and subsequently when considering whether to add to or amend the disclosure requirements. When developing and considering amendments to AASB 1060, the Board considers that information about short-term cash flows and obligations, commitments or contingencies, liquidity and solvency, measurement uncertainties, accounting policy choices and disaggregation of amounts presented in the financial statements would be particularly important to the users of Tier 2 financial statements.

BC9 The Board considered that:

- (a) the additional qualitative information about eligible contracts that are recognised as procurement contracts would be useful to the users of Tier 2 financial statements because information about cash flows and liquidity are particularly important to them;
- (b) the additional quantitative information about eligible contracts that are recognised as procurement contracts would be excessive for Tier 2 entities, as the costs to preparers would likely outweigh the benefits to the users of financial statements of Tier 2 entities;
- (c) when AASB 1060 was developed, there was a significant reduction in disclosure requirements for hedge transactions, with the result that the Board proposes to leave these requirements unchanged; and
- (d) since AASB 1060 includes general requirements to cross-reference the items in the financial statements to related information in the notes, but does not require cross-referencing between notes, the Board proposes to retain this approach and not require note cross-referencing in respect of eligible contracts.

BC10 Therefore, the Board decided to issue an Exposure Draft proposing:

- (a) amendments to AASB 1060 to require a Tier 2 entity to disclose qualitative information about eligible contracts that are recognised as procurement contracts; but
- (b) no amendments to AASB 1060 for:
 - (i) additional quantitative information about eligible contracts that are recognised as procurement contracts;
 - (ii) additional disclosure requirements for eligible contracts that are recognised as a cash flow hedging instrument; and
 - (iii) cross-referencing between notes regarding all contracts referencing nature-dependent electricity.

BC11 The Board also proposes to provide Tier 2 entities with transitional relief equivalent to that available to entities applying the requirements of AASB 2025-1 in Tier 1 general purpose financial statements for the first time. Therefore, the Exposure Draft proposes to not require:

- (a) comparative disclosures on initial application of the Tier 2 disclosure requirements; and
- (b) the quantitative information that would otherwise be required by paragraph 106(b) of AASB 1060.

Effective date

BC12 The Board proposes that the amendments should be made effective for annual periods beginning on or after 1 January 2026, with earlier application permitted. This would be the same effective date as for the amendments in AASB 2025-1.