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UNITED KINGDOM

(submitted via the IASB website)

5 August 2024

Dear Andreas,

AASB submission on IASB Exposure Draft/2024/3 Contracts for Renewable Electricity: Proposed amendments to IFRS 9 and IFRS 7

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on the International Accounting Standards Board (IASB) Exposure Draft 2024/3. In formulating these comments, the views of our Australian stakeholders were sought and considered. This included:

- consultation with the AASB's User Advisory Committee, comprising a range of primary users of financial statements;
- consultation with the AASB's Financial Instrument Project Advisory Panel, comprising subject matter experts across a range of stakeholder groups;
- targeted consultations with key stakeholders, such as professional bodies, auditors and preparers in Australia.

The AASB acknowledges the IASB's efforts to address some practice issues related to the accounting for renewable energy contracts and welcomes the proposed amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*.

Overall, our stakeholders agree with the narrow-scope amendments relating to the application of the own-use requirements and cash flow hedge accounting to contracts for renewable electricity.

However, we recommend:

- (a) clarifying that the proposed amendments to the own-use requirements apply only to contracts with delivery to customer accounts (Question 2); and
- (b) clarifying that the proposed disclosure requirements apply to all contracts in the scope of paragraph 6.10.1 by including a reference to paragraphs 42T to 42W of IFRS 7 in paragraph 6.10.1 of IFRS 9 and adding an explanatory sub-paragraph to the current paragraph 5 of IFRS 7 (Question 4).

Detailed recommendations and responses to the specific questions for respondents can be found in the Appendix to this letter. If you have any questions regarding this letter, please do not hesitate to contact me or Helena Simkova, Director (hsimkova@asb.gov.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Kendall'.

Dr. Keith Kendall
Chair – AASB

APPENDIX

**AASB responses to questions raised in the IASB Exposure Draft/2024/3 Contracts for Renewable Electricity:
Proposed amendments to IFRS 7 and IFRS 9.**

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?

The AASB agrees with the IASB’s narrow-scope proposals for contracts for renewable electricity with specified characteristics.

However, our outreach activities indicated a need for further clarification of the scope as the current wording in paragraph 6.10.1 (a) refers to “substantially all the volume risk” suggesting that a purchasing entity needs to take all of the volume from a referenced production facility. As some contracts are often structured for the entity to take only a portion of a facility’s production, it is unclear whether those contracts are in the scope of the proposed changes.

Therefore, the AASB recommends to clarify the scope and amend paragraph 6.10.1 (b) as follows:

- (b) *“that contract ~~exposes the purchaser to substantially all the volume risk under the contract through ‘pay-as-produced’ features~~ contains uncertainty as to the total volume of electricity to be delivered and/or the timing of the delivery. ~~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.”~~*

(Note: the suggested wording above includes some alternative wording proposed by EFRAG).

To further improve the clarity of the scope, the IASB could provide some specific illustrative examples of out-of-scope contracts, for example, hydro with pumps. This could be similar to paragraph 23(b) of IASB staff paper 3A from the March 2024 IASB meeting. The AASB is of the opinion that the example from the paper would provide useful guidance to the stakeholders.

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?

The AASB supports the proposed amendments of IFRS 9 so the own-use requirements can be applied by entities to renewable electricity contracts that have specified characteristics.

However, further clarification may be necessary. During our outreach activities, it was not immediately obvious to some stakeholders that the own-use exception applies only to certain Power Purchase Agreements (PPAs) (mainly to the physical PPAs). Therefore, we recommend that the IASB clarifies for the purpose of applying the own-use exception in IFRS 9 to PPAs, the non-financial item must be considered to be delivered to the customer’s account, regardless of how the electricity market is organised (e.g. contract is a physical PPA).



The AASB acknowledges that the current wording of paragraph 6.10.3 refers to “buy and take delivery”, which indicates applicability to purchasers only. We note, that in the case of physical PPAs, the producer may face similar issues as the purchaser. To provide greater clarity, the IASB should consider explaining in the basis for conclusions that paragraph 6.10.3 applies only to purchasers and the reasons for the narrow scope. Alternatively, the scope should be reconsidered to allow the producers to use the own-use requirements.

Whilst we support the timely completion of the project in its current scope, to future-proof the amendments we also recommend the IASB in the next stage consider the effect of batteries that can be used to store electricity for a short period of time.

Further, if the reference to the volume risk in paragraph 6.10.1 (b) is removed, then a similar change needs to be made to paragraph 6.10.3 (b)(i):

- (b) *“the reasons for past and expected sales of unused renewable electricity within a short period after delivery and whether such sales are in accordance with the entity’s expected purchase or usage requirements. A sale of unused renewable electricity is in accordance with the entity’s expected purchase or usage requirements only if all the following criteria are met:*
- (i) *the sale arises from the entity’s exposure to the uncertainty as to the total volume of electricity delivered and/or timing of the delivery ~~volume risk~~, giving rise to mismatches between the renewable electricity delivered and the entity’s electricity demand at the time of delivery.”*

Alternatively, if the wording of paragraph 6.10.3 (b)(i) remains unchanged, the volume risk can be defined in IFRS 9 Appendix A Defined Terms.

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?

The AASB agrees with the amendments to permit an entity to apply cash flow hedge accounting to in-scope contracts as most of our stakeholders expressed support for the proposed amendments. The AASB observed that to provide greater guidance, users of the accounting standards may benefit from illustrative examples similar to the examples presented to the IASB in IASB Staff Paper 3B from the March 2024 IASB meeting.

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?

The AASB agrees with the IASB's proposed amendments to IFRS 7 requiring an entity to disclose additional information that would enable users of financial statements to understand the effects of renewable electricity contracts.



We noted during our outreach, some stakeholders did not understand that the proposed disclosures apply to all contracts in the scope of the ED, i.e. including the PPAs that apply the own-use requirements. The main reason is that IFRS 7 does not apply to the contracts to buy or sell non-financial items that are in scope of the own-use requirements (and thus not in scope of IFRS 9). As a result, the entities may omit disclosing the required information. Therefore, the AASB suggests the IASB to:

- add a new paragraph 5B to IFRS 7 as follows:
“Paragraphs 42T to 42W apply to all contracts for renewable electricity that have the characteristics described in paragraph 6.10.1 of IFRS 9.”
- clarify in paragraph 6.10.1 of IFRS 9 that the proposed disclosure requirements apply to all contracts in the scope of paragraph 6.10.1 by including a reference to paragraphs 42T to 42W of IFRS 7.

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?

The IFRS 19 *Subsidiaries without Public Accountability: Disclosures* have not been adopted in Australia. Therefore, we will not comment on Question 5.

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?

Overall, we agree with the IASB's proposed transition requirements but recommend that the IASB clarifies whether the transition day is to be considered the inception of the contract for the purposes of the contract assessment required by paragraph 6.10.3.

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?

We recommend the IASB to set the effective date to 1 January 2026 and permit early adoption.

Our stakeholders commented that the proposed effective date may not provide sufficient lead time for the smaller entities with limited resources to understand and apply the proposed amendments.