

1 August 2024

Mr Andreas Barckow
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

By e-mail only - commentletters@ifrs.org

Re: Comment – Exposure Draft Contracts for Renewable Electricity Proposed amendments to IFRS 9 and IFRS 7

Dear Mr Barckow,

On behalf of RSM International Limited, a worldwide network of independent audit, tax, and consulting firms, we are pleased to comment on the IASB's Exposure Draft Contracts for Renewable Electricity Proposed amendments to IFRS 9 and IFRS 7 ("ED"). Our comments and detailed responses to the questions set out in the Invitation to Comment section of the ED are set out in the appendix to this letter.

We welcome the narrow-scope amendments to IFRS 9 *Financial Instruments* for contracts to buy or sell renewable electricity that have specified characteristics, including both physical and virtual PPAs.

In addition, we are supportive of the proposed own-use requirements and the application of hedge accounting on contracts for renewable electricity; as well as the proposed amendments in adding the disclosure requirements for contracts for renewable electricity under IFRS 7 *Financial Instruments: Disclosures*.

However, we believe that the following points should be reconsidered by the Board:

1) Scope of the proposed amendments

We welcome the proposed amendments to IFRS 9 and believe that the proposed scope is sufficiently narrow to focus on renewable electricity contracts with specific characteristics outlined in paragraph 6.10.1.

However, we recommend the Board consider providing further guidance and clarification on other nature-dependent renewable electricity sources other than those generating from wind, sun, and water that are outlined in paragraph 6.10.1 (a) for future long-term standard development. We also note that further guidance may be necessary, as some hydro-power operations may have, in substance, the ability to produce electricity at specified times or volumes.

2) Proposed own-use requirements on contracts for renewable electricity

Whilst we welcome the proposed amendments to provide further guidance and clarification on the application of own-use exemption on renewable electricity contracts, we believe that a further clarification should be made in paragraph 6.10.3 (b) (ii).

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We have concerns that the proposed wording used in paragraph 6.10.3 (b) (ii) would result in misinterpretation in practice and therefore, we would like to emphasise the need for using precise language in the Standard to avoid ambiguity in applying own-use exemptions on renewable electricity contracts.

It is critical that the responsible party (“the entity” used in the paragraph) for determining the timing or price of the sale of unused electricity is clearly defined, whether it is the purchaser or the seller in the context of a renewable electricity contract.

Furthermore, it is essential to clarify whether the entity does not have the practical ability in determining either the timing or the price, or both, to prevent any misinterpretation. Addressing these points will ensure that the amendments serve their intended purpose and are applied consistently and fairly in practice.

3) Proposed disclosure requirements - IFRS 7

We welcome the proposed amendments to IFRS 7, which require that an entity must disclose information regarding its financial performance and the amount, timing, and uncertainty of the entity’s future cash flows. We believe that such additional disclosure would provide reliable information to the financial statements users to understand the financial impact resulting from contracts for renewable electricity.

Whilst we welcome the proposed amendments to IFRS 7, we believe that a further consideration is required in relation to the requirements under paragraph 42T (b) (ii).

The proposed amendments require an entity to disclose the volume of renewable electricity a seller expects to sell, or a purchaser expects to purchase over the remaining duration of the contract under a predetermined range for each of these periods (i.e., not later than one year; later than one year and not later than five years; and later than five years); instead of using its judgement to determine an appropriate number of time bands. IFRS 7 allows entities to present information in a time range that reflects their specific circumstances, enabling a more tailored and informative disclosure. We encourage the Board to provide flexibility for an entity to present the required information in a time range based on its judgement, with the disclosure of the methods and assumptions in deciding the time range.

4) Proposed disclosure requirements for subsidiaries without public accountability

We disagree with this proposed disclosure requirement for subsidiaries without public accountability. We believe introducing the additional disclosure requirements of contracts for renewable electricity could undermine the main objective of IFRS 19, which is to allow eligible subsidiaries to reduce the costs of preparing financial statements while maintaining the usefulness of the information for users of their financial statements.

5) Effective Date

Whilst we welcome the IASB’s aim to issue the amendments in the fourth quarter of 2024, with an effective date of annual reporting periods beginning on or after 1 January 2025, we recommend the Board take into account the time required to review all responses to this Exposure Draft. Issuing the amendments late in the fourth quarter might not allow users adequate time to prepare for the proposed changes. We would suggest a deferral of the effective date by 12 months, noting that early adoption would be available for any entities wishing to adopt the amendments as soon as possible.

We would be pleased to respond to any questions the Board or its staff may have about any of our response. If you have any questions or comments, please do not hesitate to contact Monique Cole (+1 6172411461) or me (+44 (0)207 601 1842).

Yours faithfully,

A handwritten signature in black ink that reads "Marion Hannon".

Marion Hannon
Global Leader, Quality & Risk
RSM International Limited

APPENDIX

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?

We welcome the proposed amendments to IFRS 9. The amendments are intended to apply to renewable electricity contracts with both of the following characteristics:

- a) *the source of production of the renewable electricity is nature-dependent so that supply cannot be guaranteed at specified times or for specified volumes. Examples of such sources of production include wind, sun, and water.*
- b) *that 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.*

The IASB further clarified that an entity shall not apply the proposed amendments by analogy to other contracts, items, or transactions.

We agree that the proposed scope is sufficiently narrow to focus on specific contracts that meet both characteristics, without causing unintended consequences for the other contracts. The dependence on the unpredictable nature of production sources is a defining characteristic of renewable electricity contracts. This criterion is considered sufficiently specific to minimise the risk of unintended consequences for other contracts.

In paragraph 6.10.1 (a), the proposed amendments include examples of renewable electricity source of production, including wind, sun, and water. We recommend the Board should provide further guidance and clarification for other nature-dependent renewable electricity sources that do not generate from wind, sun, and water, for example, geothermal energy.

Although the portion of renewable electricity generated from sources other than wind, sun and water is not significant at this stage, we encourage the IASB to further provide guidance and clarification on production sources that are not derived from wind, sun and water but meet the characteristics that listed in para. 6.10.1 (a) and (b) for future long-term standard development.

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?

We welcome the proposed amendments to IFRS 9 including 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.

We agree the proposed amendments provide further guidance and specific details for the own-use requirements to contracts that meet the scoping characteristics listed in paragraph 6.10.1.

The proposed amendments maintain the core principles regarding the application of own-use requirements, while reflecting management's intention in entering into the contracts. It includes the specific requirements that an entity shall consider at inception of the contract and at each subsequent reporting date.

We believe the proposed amendments would effectively reduce the likelihood of own-use exemptions being misused in the accounting treatment of renewable electricity contracts in practice.

In addition, if an entity enters into a contract that is expected to continuously deliver more electricity than it requires, such an oversized contract would not align with the entity's expected usage requirements. We agree with this perspective as it accurately reflects the substance of the transaction and supports the principle of own-use exemption.

However, we suggest the Board to consider the following matter in relation to the criteria of the entity's expected purchase or usage requirements under paragraph 6.10.3 (b) (ii):

ii. The design and operation of the market in which the electricity is sold results in the entity not having the practical ability to determine the timing or price of the sale of unused electricity.

We would encourage the Board to provide further clarification to address the following concerns:

- Clarification on the details of the responsible party for determining the timing or price of the sale of unused electricity, whether it is the purchaser or the seller of the renewable electricity contract.
- Clarification on the requirement on the entity not having the practical ability to determine the timing or price of the sale of unused electricity. It is unclear whether the intention is "either the timing or price"; or "timing and price" considering the existing wording in the proposed amendments.

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?

We welcome the proposed amendments in paragraph 6.10.4 to 6.10.6 which allows an entity to designate a variable nominal volume of forecast electricity transactions as the hedged item when the specified criteria are met. These proposed amendments effectively address the need for the designation of renewable electricity contracts as a hedged item in a cashflow hedging relationship.

In the absence of these proposed amendments, it would not be possible to apply hedge accounting to renewable electricity contracts under the existing qualifying criteria for hedge accounting under IFRS 9. The Standard requires the hedged items to be designated as a specified nominal amount or volume. As a result, any changes to the nominal amount or volume of the hedged item would lead to the discontinuation of the hedging relationship.



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?

We welcome the proposed amendments to IFRS 7, which require that an entity must disclose information regarding its financial performance and the amount, timing, and uncertainty of the entity's future cash flows; considering such disclosure would enable users of financial statements to understand the effect of contracts for renewable electricity.

The proposed amendments in paragraph 42U and 42V include specific disclosure requirements for sellers and purchasers under renewable electricity contracts. In particular, the additional disclosure requirement for purchasers of the contracts will provide users of the financial statements with informative details, including:

- a) the proportion of renewable electricity covered by the contracts to the total net volume of electricity purchased.
- b) the total net volume of electricity purchased.
- c) the average market price per unit of electricity in the markets in which the entity purchased electricity; and
- d) if the average market price of the net volume of electricity purchases substantially differs from the actual total costs incurred by the entity to purchase the volume of electricity, a qualitative explanation of the key reasons for this difference is required to be disclosed.

We believe the proposed amendments to IFRS 7 would enable users of the financial statements to understand the future commitments of the contracts by disclosing the amount, timing and uncertainty of the future cash flow as well as how these contracts impact the financial performance, regardless of whether own-use exemptions are applied to those contracts.

However, we believe the following disclosure requirement under paragraph 42T (b) (ii) would result in a different presentation in the financial statements compared to other financial instruments:

(ii) the volume of renewable electricity a seller under the contracts expects to sell, or a purchaser under the contracts expects to purchase over the remaining duration of the contracts. An entity is permitted to provide this information as a range for each of these periods: not later than one year; later than one year and not later than five years; and later than five years.

IFRS 7 allows an entity to use its judgement to determine an appropriate number of time bands, rather than strictly following the specific time range (i.e., not later than one year; later than one year and not later than five years; and later than five years). This could result in different time ranges and presentation forms between the renewable electricity contracts and the other financial instruments.

We encourage the Board to provide flexibility for an entity to present the required information in a time range based on its judgement, with the disclosure of the methods and assumptions in deciding the time range.

We believe this recommended approach will maintain the consistency of the existing disclosure requirements for financial instruments under 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?

We disagree with the proposals to require an eligible subsidiary to disclose information about its contracts for renewable electricity with specified characteristics under the requirements of IFRS 7 *Financial Instruments: Disclosures*.

The IASB issued IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, allowing eligible subsidiaries to apply reduced disclosures in their financial statements while still providing useful information to users. We believe introducing these disclosure requirements would undermine the main objective of the IFRS 19, which is to reduce the costs of preparing eligible subsidiaries' financial statements while maintaining their usefulness for users.

Question 6 — Transition requirements

The IASB proposed 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?

We agree with the IASB's proposal that:

- The amendments to the own-use requirements in IFRS 9 be applied under a modified retrospective approach.
- The amendments to the hedge accounting requirements be applied prospectively.

Transition requirements of own-use requirements

Under the requirements of proposed amendments, an entity is not required to restate comparative prior year figures to reflect the application of the proposed amendments under the modified retrospective approach; unless it is possible to do so without the use of hindsight.

We believe the transition requirements in proposed paragraph 7.2.50 and 7.2.51 to be reasonable, considering the complexity of applying the changes to prior year figures.

Transition requirements of hedge accounting

An entity is required to apply the revised requirements prospectively to new hedging relationships designated on or after the date the amendments are first applied.

We believe the proposed transition requirements provide a practical solution by allowing an entity to change the designation of the hedged item in a cash flow hedging relationship that was designated before the date the amendments are first applied. To provide clarification, the proposed amendments further stated that such a change to the designation of the hedged item constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

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 welcome the IASB's aim to issue the amendments in the fourth quarter of 2024, with an effective date of annual reporting periods beginning on or after 1 January 2025. We acknowledge that early adoption of the proposed amendment would be permissible.

However, we suggest that the Board consider the expected timeframe for reviewing all responses received from this ED and the necessary time to consider all the recommendations. If the amendments are issued toward the end of the fourth quarter, it may not provide sufficient time for the users to prepare for the proposed changes.

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