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5 August 2024

IFRS Foundation
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Our Ref: 2024/O/C1/IASB/PM/867

**RE: Exposure Draft: Contracts for Renewable Electricity
Proposed amendments to IFRS 9 and IFRS 7**

Dear International Accounting Standards Board (“IASB” or “the Board”) Members,

The International Organization of Securities Commissions (“IOSCO”) Committee on Issuer Accounting, Audit and Disclosure (“Committee 1”) thanks you for the opportunity to provide our comments on the Exposure Draft: *Contracts for Renewable Electricity – Proposed amendments to IFRS 9 and IFRS 7*.

IOSCO is committed to promoting the integrity of the international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 (“members” or “we”) seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General observations:

Overall, we support the IASB’s objective to ensure financial statements faithfully represent the effects of contracts for renewable electricity that are in the scope of IFRS 9 *Financial Instruments* (IFRS 9). We also support the IASB’s efforts to enhance the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* (IFRS 7) to enable investors to understand the effects of these contracts on an entity’s financial statements.

Like the IASB, we have not identified circumstances where the proposed narrow-scope amendments would give rise to unintended consequences on how an entity accounts for other contracts to buy and sell non-financial

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items. In this regard, our responses below describe several areas in the proposal related to the scope of the proposed amendments and the proposed criteria and characteristics that we believe should be clarified to avoid application of the proposed guidance to contracts and transactions to buy and sell non-financial items beyond those that the IASB intends to address.

Responses to the Board's Questions:

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?

Response:

We believe the proposed amendments should be clarified as further described below, but otherwise agree the proposed amendments would address stakeholders' concerns about whether, and if so, when contracts for renewable electricity within the scope of IFRS 9 qualify for the own-use scope exception.

First, given the varying nature of arrangements related to the acquisition of renewable electricity, we believe an explicit acknowledgement should be made that the determination of whether contracts for renewable electricity are in the scope of IFRS 9 applies after consideration of other IFRS Accounting Standards, such as IFRS 10, IFRS 11 and IFRS 16. For example, we believe paragraph 6.10.1 of the proposed amendments could be revised to state: "An entity shall apply the requirements in paragraphs 6.10.3–6.10.6 to a contract for renewable electricity within the scope of this standard with both of the following characteristics:" Additionally, the Board could consider including a discussion of an entity's consideration of other potentially applicable IFRS Accounting Standards in the Basis for Conclusions to the final amendments.



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In addition, we note that footnote 1 of the proposed amendments states that the IASB will consider further the location of the proposed amendments, including those that were drafted in Chapter 6 of IFRS 9 but relate to the application of paragraph 2.4 of IFRS 9. We believe that paragraph 2.4 or another paragraph within Chapter 2 of IFRS 9 should explicitly state that paragraphs 6.10.1 through 6.10.6 of the proposed amendments are to be applied to determine when contracts for renewable electricity meet the own-use scope exception in paragraph 2.4. For example, we believe paragraph 2.4 of IFRS 9 could be amended to state the following: “For contracts for renewable electricity that are within the scope of this standard, an entity shall apply paragraphs 6.10.1 through 6.10.6 to determine if these contracts are held for the purpose of the receipt or delivery in accordance with the entity’s expected purchases, sales or usage requirements.” Absent this clarification, we believe an entity might apply paragraphs 2.4-2.7 in isolation, without considering the relevant guidance in Chapter 6 and the IASB’s intended disclosures for these contracts. In this regard some members do not believe it is a foregone conclusion in practice that selling electricity shortly after delivery under these contracts would necessarily fail the own-use scope exception as currently written in paragraphs 2.4 through 2.7 of IFRS 9. If an entity does not consider the requirements in Chapter 6 of the proposed amendments, it may incorrectly conclude that it is not required to provide the disclosures in paragraphs 42T through 42W of the proposed amendments to IFRS 7.

We also believe that clarification should be made in proposed paragraph 6.10.3 to emphasize that the guidance in this paragraph applies only to contracts that require *physical* delivery of electricity. For example, this paragraph could be amended as follows: “For the purpose of applying the requirements in paragraph 2.4 to contracts to buy and that require taking physical delivery of renewable electricity that have the characteristics in paragraph 6.10.1, an entity shall consider at inception of the contract and at each subsequent reporting date....”

Additionally, we believe the IASB should clarify how the characteristic in proposed paragraph 6.10.1(b) regarding exposure to “substantially all the volume risk under the contract” would be assessed when a contract for renewable electricity includes a minimum guarantee of specified volumes (e.g., guaranteed minimum volume at specified times over seasonal production periods or during certain months). We believe that contracts with minimum guarantees could result in application questions regarding how the proposed scope criteria in paragraph 6.10.1 should be applied if the maximum volume above the minimum guarantee varies significantly, and how to evaluate whether or not the purchaser has assumed “substantially all” the volume risk. For example, we believe the IASB should clarify whether or not volume risk should be weighted to the unguaranteed portion of the contract if the guaranteed minimum volume of production is highly probable of occurring.

Finally, we believe the IASB should clarify how an entity determines whether it is exposed to substantially all of the volume risk, as described in paragraph 6.10.1(b) of the proposed amendment, when it has the ability to



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store electricity received under the contract. In this regard, we note that the proposed guidance defines volume risk as “the risk that the volume of electricity produced does not align with the purchaser’s demand for electricity at the time of production.” We believe the IASB should consider whether this definition and other areas of the proposed amendments should be revised to consider a future state where electricity storage capacity is more widely available.

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?

Response:

We are generally supportive of the proposed amendments in paragraph 6.10.3 of IFRS 9 that include 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. However, we believe additional clarifications should be provided to explain how to apply those factors.

We note proposed paragraph 6.10.3(a) states that “an entity shall consider reasonable and supportable information available at the reporting date about expected changes in the entity’s purchase or usage requirements for a period not shorter than 12 months after the reporting date (or the entity’s normal operating cycle as described in paragraph B95 of IFRS 18).” If the IASB’s intent is for an entity’s estimate to consider all reasonable and supportable information available, including information available beyond 12 months after the reporting date (or the normal operating cycle), we recommend the IASB clarify how to determine the time period to be used to identify reasonable and supportable information. Absent this clarification, we believe entities will default to a 12 month time period.



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We also note that the criterion in paragraph 6.10.3(b)(iii) of the proposed amendments requires that an “entity expects to purchase at least an equivalent volume of electricity within a reasonable amount of time (for example, one month) after the sale.” We believe that paragraph 6.10.3(b)(iii) should be clarified to explain whether or not a reasonable period of time is limited to one month or is dependent on an entity’s operations, as noted in paragraph BC20(c) of the Exposure Draft. For example, we believe paragraph 6.10.3(b)(iii) could be amended to state the following: “...(for example, based on an entity’s operations, a one month period could be reasonable and supportable in some circumstances).”

Finally, we note that interpretive questions may arise to determine how to apply paragraph 6.10.3 in jurisdictions where one or more intermediaries are used under local market conventions or regulations to facilitate physical delivery of electricity, for example, to provide access to the electricity grid and/or maintain stability of the electricity grid by balancing supply. In certain fact patterns where multiple contracts are entered into among a purchaser, supplier and intermediaries in contemplation of each other, the combined effect of these contracts may meet the criteria in paragraph 6.10.1 and 6.10.3 to qualify for the own-use scope exception but any single contract between parties, when viewed in isolation, may not. We believe the guidance should indicate how to consider whether a series of contracts with intermediaries entered into as a result of regulatory or market convention qualifies for the own-use scope exception, for example, where in aggregate the contracts are consistent with the nature of contracts described in 6.10.1 and result in physical delivery that otherwise meets the own-use criteria in 6.10.3 from the purchaser’s perspective. We believe that this clarification will also limit the risk of applying the guidance in paragraph 6.10.3 to transactions with intermediaries that are virtual power purchase agreements.

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?



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Response:

We are supportive of the proposed amendments to IFRS 9 to permit an entity to designate a variable nominal volume of forecast electricity transactions as the hedged item if specified criteria are met and to permit the hedged item to be measured using the same volume assumptions as those used for measuring the hedging instrument. We encourage the IASB to provide illustrative examples that explain how an entity applies the criteria in proposed paragraph 6.10.4.

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?

Response:

We are supportive of the proposed amendments to IFRS 7 to 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. However, as explained below, we believe the IASB should clarify the scope of IFRS 7 to include contracts for renewable electricity that have specified characteristics.

We observe that paragraph 5 of IFRS 7 states “This IFRS applies to contracts to buy or sell a non-financial item that are within the scope of IFRS 9.” However, we also observe contracts for renewable electricity that have the characteristics in proposed paragraph 6.10.1 of IFRS 9 that meet the own-use scope exception in paragraph 2.4



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of IFRS 9 by applying 6.10.3 are exempt from certain of the requirements in IFRS 9. For the avoidance of doubt, we recommend the IASB clarify the scope of IFRS 7 to include contracts for renewable electricity that have the characteristics in proposed paragraph 6.10.1 of IFRS 9 to provide additional clarity that proposed disclosures in paragraphs 42T – 42W of IFRS 7 apply to contracts for renewable electricity that qualify for the own-use scope exception and support enforceability of the proposed amendments.

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?

Response:

We do not have any feedback or views on the proposed amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*.

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?



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

Response:

We agree with the IASB’s proposal to require entities to apply the own-use requirements in IFRS 9 using a modified retrospective approach and the amendments to the hedge accounting requirements prospectively. We also agree with the IASB’s proposal to permit early application of the proposed amendments from the date the amendments are issued.

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?

Response:

We are generally supportive of an effective date of annual reporting periods beginning on or after 1 January 2025 to apply the proposed amendments.

We appreciate your thoughtful consideration of the views provided in this letter.



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If you have any questions or need additional information, please do not hesitate to contact Jonathan Wiggins, Chair of the Accounting Subcommittee of Committee 1 at +1 202-551-3694 or me. In case of any written communication, please mark a copy to me.

Yours sincerely,

Paul Munter

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