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Chairman
International Accounting Standards Board
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Dear Dr Barckow,

Exposure Draft IASB/ED/2024/3 Contracts for Renewable Electricity: Proposed Amendments to IFRS 9 and IFRS 7

1. The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS Accounting Standards for use in the UK and therefore is the UK's National Standard Setter for IFRS Accounting Standards. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations. This letter is intended to contribute to the Foundation's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended international accounting standards undertaken by the UKEB.
2. There are currently approximately 1,500 entities with equity listed on the London Stock Exchange that prepare their financial statements in accordance with IFRS.¹ In addition, UK law allows unlisted companies the option to use IFRS and approximately 14,000 such companies currently take up this option.²
3. We welcome the opportunity to provide comment on the International Accounting Standards Board (IASB)'s Exposure Draft (ED) *Contracts for Renewable Electricity: Proposed Amendments to IFRS 9 and IFRS 7* (the Amendments). In developing this letter, we have consulted with stakeholders in the UK, including preparers, accounting firms and institutes, and users of accounts.
4. We appreciate the IASB's responsiveness in addressing the challenges faced by entities accounting for contracts for renewable electricity. The demands for

¹ UKEB calculation based on LSEG and Eikon data, May 2024. This calculation includes companies listed on the Main market as well as on the Alternative Investment Market (AIM).

² UKEB estimate based on FAME, Company Watch and other proprietary data.

increased transparency on the use of those contracts has highlighted the need to provide clarity and minimise the risk of diversity in accounting practice in this increasingly significant area.

5. Our main observations and recommendations are set out in the paragraphs that follow. Responses to the IASB's specific questions about the ED are included in the Appendix to this letter.

'Own-use' requirements

6. The Amendments address accounting for renewable energy contracts that are typically bespoke, complex and long-term. We understand that frequently the main driver for entities entering into these contracts is to obtain renewable energy certificates. In addition, the market for such contracts is expected to grow in the next few years with the anticipated increase in demand for electricity generated from renewable sources.
7. The proposed departure from principle-based accounting associated with the introduction of an exception to an existing exception within IFRS 9 risks introducing additional complexities to the accounting requirements and the creation of unintended consequences. In our discussions with stakeholders, we have not been able to identify any clear technical arguments in favour of applying 'own use' treatment to the defined contracts. In addition, the scope of the Amendments, relying on "pay as produced" features, leads to a potential anomaly whereby some common renewable electricity contracts may be treated as derivatives, whereas others, where the potential volume risk is higher, are treated as "own use" contracts.
8. However, we recognise that the complexity and rapid growth in usage of these contracts means that any practical solution to the problem is likely to involve compromises. Feedback from UK stakeholders supports the development of a pragmatic solution. In particular, they have identified practical and operational challenges in obtaining reliable valuations for these complex, long-term and frequently bespoke contracts that would be required if an exception to the existing rules were not permitted. Furthermore, we note that investors are not calling for fair value treatment for these contracts.
9. In our view, the challenge for the IASB is to determine whether the need for a practical, exception-based solution in these limited circumstances outweighs the objective of developing principle-based accounting requirements. Given the calls for an urgent solution from many stakeholders, we consider that, if the IASB decides to proceed with these Amendments, their current narrow scope should be retained to avoid the risk of further unintended consequences.
10. We have set out our detailed comments on the drafting of the scope and 'own-use' proposals in paragraphs A2 to A7 and A8 to A11 of the Appendix respectively.

Hedge accounting requirements

11. We broadly support the proposed amendments to hedge accounting. Facilitating cash flow hedge accounting for relevant contracts, both physical and virtual, would mitigate some of the concerns of preparers while also enabling users of accounts to better understand the financial impact of contracts for renewable electricity on an entity's financial position and income statement and the risks to which it is exposed.
12. However, this is a complex area which needs the support of detailed application guidance and illustrative examples to show preparers and users how the proposals are intended to apply in relation to variable volumes of sales and purchases of renewable electricity. This should include explaining the sources of any ineffectiveness and how to measure it. This would facilitate consistent application of the amendments.
13. We recognise and support the fact that the IASB has taken a pragmatic approach to addressing the existing challenges with cash flow hedge accounting for renewable energy contracts within the scope of the Amendments. We agree that this approach should limit the risk of unintended consequences. As noted above, the UKEB supports principle-based accounting standards. We therefore encourage the IASB to consider, as part of the IASB's Post-implementation Review of IFRS 9 – Hedge Accounting, whether there is merit for these changes to be extended to other cash flow hedge relationships.
14. Our detailed comments on hedge accounting are in paragraphs A12 to A18 of the Appendix.

Disclosures

15. As explained below, we have some concerns about the burden, and scope, of the proposed disclosure requirements. We recognise that users need to understand the judgements associated with these contracts, and that some information about the nature of the contractual risks accepted by the energy buyer should be provided. However, these need to be targeted, with a clearly identified disclosure objective to ensure that they deliver the identified benefit for users of accounts.
16. We support some aspects of the proposed disclosure requirements, but as drafted we are concerned that the proposals would add a significant reporting burden for preparers far in excess of that for similar contracts, and would risk requiring the disclosure of commercially sensitive information. We have received extensive feedback from stakeholders that some of the disclosure proposals would be excessive, particularly for contracts measured at fair value already subject to the disclosure requirements of IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement*. We recommend that additional disclosure requirements apply only to those contracts for renewable electricity within the scope of the

Amendments that meet the 'own-use' requirements. We also recommend that the IASB does not proceed with the disclosure proposals in paragraph 42V (b)-(d).

17. Our detailed comments on disclosures are set out in paragraphs A19 to A23 of the Appendix.

Effective date

18. We think it is likely that an application date of accounting periods beginning on or after 1 January 2025 will be difficult for some preparers, and recommend the proposals are effective for accounting periods beginning on or after 1 January 2026, with early adoption permitted.
19. Our detailed comments on the effective date are in paragraphs A32 to A34 of the Appendix.

Accounting for renewable energy certificates

20. We note that contracts within the scope of these proposals are typically accompanied by renewable energy certificates (RECs), but that the accounting for RECs is not addressed by these proposals. We encourage the IASB to add to its current agenda the project *Pollutant Pricing Mechanisms*, currently in the IASB's reserve list.

Yours sincerely

Pauline Wallace
Chair
UK Endorsement Board

Appendix A: Questions on ED *Contracts for Renewable Electricity— Proposed amendments to IFRS 9 and IFRS 7*

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?

- A1. As noted in our cover letter, we have concerns about the departure from principle-based accounting proposed by the Amendments. In our view the IASB needs to weigh up whether a practical, exception-based solution in these limited circumstances outweighs the objective of developing principle-based accounting requirements. If the IASB decides to proceed with these limited scope Amendments, we have some recommendations on the drafting as follows.
- A2. Paragraph 6.10.1 limits the scope of these proposals to 'a contract for renewable electricity' with specified characteristics. The draft text distinguishes between 'normal purchase' contracts and contracts requiring net settlement of the difference between specified prices for the volume of electricity produced from a referenced production facility. While we do not believe there is significant scope for confusion here, it was not clear to us that the latter contracts would meet the requirement to be a contract *for* renewable electricity, as the contract does not involve any delivery of the underlying subject matter.
- A3. We understand the IASB intends these Amendments to apply to virtual PPAs as well as physical PPAs. We recommend the IASB consider defining the term 'contract for renewable electricity' or otherwise making it beyond doubt that the scope includes virtual PPAs.
- A4. We note that some complexity arises from addressing virtual and physical contracts in the same scope paragraphs, although the 'own use' requirements only

apply to physical contracts and there are existing disclosure requirements for virtual contracts. We recommend that consideration is given to whether the scoping paragraphs would be clearer if a separate scope paragraph was included for the hedge accounting requirements to include virtual contracts.

- A5. We also observe that, in BC3 where the basis for including virtual PPAs within the proposals is discussed, a statement is made that “the objective of both physical PPAs and virtual PPAs is to ensure long-term access to renewable electricity...”. As noted above, our understanding is that a virtual PPA does not involve the delivery of renewable electricity to the customer so may not in itself ensure access to electricity.
- A6. Paragraph 6.10.2 states that paragraphs 6.10.3-6.10.6 “provide exceptions to only the requirements in IFRS 9 specified in the paragraphs 6.10.3-6.10.6.” We are concerned that this reference to “exception”, might be understood to provide a complete exception to the requirements of paragraphs 2.4 or Section 6.3 of IFRS 9. We recommend that paragraph 6.10.2 is reworded to ensure the intended meaning is clearer, for example by using words such as “modify the requirements of IFRS 9 only as specified...”.
- A7. As a further minor drafting point, we note the words in the final sentence of BC20(b) “contracts are timely reclassified as derivatives” would read better as “contracts are reclassified as derivatives on a timely basis...”.

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?

- A8. In spite of the clear statement in paragraph 6.10.2 that these requirements shall not be applied by analogy to other contracts, we believe there is a risk that this concession may be interpreted as setting expectations for the actions required by an entity assessing whether the ‘own-use’ requirements are met for contracts that fall outside the scope of these Amendments – i.e. that detailed estimates would be required for periods far in the future. To the extent that this goes beyond existing guidance on the application of IFRS 9 paragraph 2.4, this could lead to changes in practice and cause entities to reach different conclusions on the

required accounting for other contracts. While the proposed solution might be seen as a pragmatic approach to contracts within the scope of the Amendments, we caution that this solution is not free of risks of wider repercussions.

- A9. Paragraph 6.10.3(b)(i) includes the criteria that “the sale arises from the entity’s exposure to the volume risk...”. It may be clearer to specify the volume risk that this refers to, for example “the volume risk arising under the contract”.
- A10. Paragraph 6.10.3(b)(iii) refers to purchase of electricity “within a reasonable time” and gives an example of one month. We note that some contracts where supply or demand is significantly affected by seasonal variations, e.g. for the generation of power from solar panels, or where demand drops significantly due to a factory closing for a month in the summer, may not meet the requirement within a month. We recommend the IASB clarify its intention as to whether contracts for renewable electricity for entities where supply or demand is significantly affected by seasonal variations could still be in scope of the proposed Amendments.
- A11. We also note that BC20 (c) explains that ‘reasonable’ depends on an entity’s operations and that a reasonable time “is typically a short time”. We recommend that this guidance be included within the body of the standard.

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?

- A12. In general, we welcome the proposed hedge accounting requirements. In a cash flow hedge relationship in which a contract for renewable electricity that has the characteristics in paragraph 6.10.1 is designated as the hedging instrument, the designation of a variable volume of forecast electricity transactions as the hedged item should allow hedge accounting to more accurately reflect the economic substance of some arrangements involving these contracts.
- A13. However, this is a complex area which needs the support of detailed application guidance and illustrative examples to show preparers and users how the

proposals are intended to apply in relation to variable volumes of sales and purchases of renewable electricity.

- A14. Stakeholders have highlighted the designation of a variable volume of forecast transactions as the hedged item, as set out in 6.10.4, as a new concept which will be unfamiliar to users. Application guidance in relation to the confidence level to be used in forecasting the variable volume and in determining the volume of future electricity transactions that are highly probable would be welcomed.
- A15. We note that there are clear challenges in developing such forecasts in relation to long term contracts. We think there may be merit in considering a relaxation to the need to produce detailed forecasts of electricity transactions far into the future, similar to that proposed in 6.10.3(a) for the 'own use' assessment for contracts within the scope of the amendments.
- A16. We consider that further application guidance is needed to explain how volume ineffectiveness is to be accounted for, and by contrast how to measure and when to recognise those other sources of ineffectiveness referred to in ED BC 37. This would include changes in the fair value of the structural price differential due to the differences in expected timing of the supply of electricity underlying the hedging instrument and hedged purchases of electricity. Examples would be the expected future differences between the prices for daytime versus nighttime delivery, weekday versus weekend and between seasons. This is an issue that does not arise in most other cash flow hedge relationships, such as those for foreign exchange. Such guidance would facilitate consistent application of the amendments.
- A17. In addition, guidance on the identification of the hedged transaction, and the corresponding timing of the reclassification from the cash flow hedge reserve, would help with application of these concepts.
- A18. As a more minor drafting point, we consider the text of 6.10.4 (b) should read "does not exceed the volume of future electricity transactions that is highly probable, ...". It is also unclear whether the text of 6.10.4(b) describes a test only at the initial designation of the hedge, or whether there is some component of ongoing assessment of this measure.

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?

- A19. We recognise the importance of increased transparency on an entity's use of contracts for renewable energy, particularly those accounted for as executory contracts. However, we are concerned that the proposed disclosures may:
- a) add a significant disclosure burden to those entities that are party to a number of these contracts, in particular for those who are both purchasers and sellers under such contracts; and
 - b) result in the need to disclose commercially sensitive information.
- A20. In general, we believe that the scope of the disclosure proposals should be limited to those contracts accounted for as 'own use'. It is not clear to us that additional disclosure requirements in relation to contracts accounted for at fair value are warranted or appropriate.
- A21. We believe that one of the key pieces of information that should then be provided relates to judgements applied in relation to these contracts, and in particular those judgements that result in 'own use' treatment. It may also be helpful for judgements associated with the designation of the hedged item in a cash flow hedging relationship to be disclosed.
- A22. We have particular concerns about the disclosure requirements in ED IFRS 7 42V (b)-(d). Feedback we have received has highlighted concerns:
- a) This will result in significant amounts of additional non-financial information. This may give rise to connectivity issues where this information is different from disclosures provided in sustainability reporting.
 - b) Determining the average market price may be complex and could lead to significant volumes of disclosure where an entity operates in a number of markets.
 - c) An entity with contracts within the scope of these proposals will be required to provide a qualitative explanation of their global electricity cost, even where only a small proportion of this cost derives from contracts within the scope of the Amendments. A power company could be required to analyse a significant proportion of their cost of sales balance. However,

a similar company with no contracts within the scope of these amendments would disclose nothing.

- d) Both preparers and investors have raised concerns that the proposals may require the disclosure of commercially sensitive information.

A23. We recommend the IASB does not proceed with the disclosure proposals in 42V (b)-(d).

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?

- A24. The application of IFRS 19 *Subsidiaries without Public Accountability: Disclosures* in the UK is conditional on the endorsement of the standard by the UKEB. The UKEB has not yet begun its endorsement assessment and the following comments should be viewed in that context.
- A25. We welcome the IASB’s identification of consequential amendments to the standard in this ED. We think this is an efficient approach that will ensure disclosure requirements for eligible subsidiaries keep pace with the development of IFRS Accounting Standards for the parent entity’s consolidated financial statements. We are broadly supportive of the proposed amendments, subject to the changes to the proposals recommended in our response to Question 4 above.
- A26. We believe that it would be helpful if the Basis for Conclusions explained the rationale for the exclusion of IFRS 7 paragraph 42W from IFRS 19.
- A27. We wonder whether the last sentence in IFRS 7 proposed paragraph 44MM was intended to be incorporated in the Exposure Draft Amendments to IFRS 19. As a drafting point, we believe the reference in that sentence to paragraph 134(f) of IFRS 19 should refer to 178(f) instead.

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?

- A28. We broadly support the IASB’s proposals on transition. However, we are concerned that the requirements in 6.10.3 requiring an entity to assess a contract “at inception of the contract and at each subsequent reporting date”, coupled with retrospective application, may be unduly onerous and potentially difficult to apply without the benefit of hindsight.
- A29. If an entity has entered into contracts within the scope of the Amendments several years previously, it may be difficult for them to reassess all the factors indicated in 6.10.3 at each historic reporting date. Because failure to meet the ‘own-use’ requirements is a once and for all assessment, this could make a difference to the outcome - the result of the assessment could be different depending on whether it was carried out at the inception of the contract a number of years ago and at each subsequent reporting date, or only at the date of initial application of the Amendments.
- A30. If the IASB’s intention is that on transition an entity should make the assessment of the factors in 6.10.3 only at the date of initial application of the Amendments, or at the beginning of the reporting period if an entity applies these Amendments in a reporting period during which the Amendments are issued, we recommend this is made explicit in the transition provisions, for example as an optional transition exemption. We note that similar provisions have previously been included in transition provisions such as IFRS 16 paragraph C16, where no reassessment of historic sale and leasebacks was required by lessors.
- A31. Paragraph 7.2.51 applies when an entity applies the amendments in a reporting period including the date the amendments are issued. We are concerned that the requirement to adjust opening retained earnings by the carrying amount at the date of issue of the amendments risks misstating opening retained earnings and the result for the period. We recommend the IASB reconsider the requirements of this paragraph.

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?

- A32. We note the urgency of the issue and support the IASB’s efforts to finalise the Amendments on a timely basis. We recognise the importance of these Amendments being available for adoption as soon as possible and support the option to early adopt the Amendments.
- A33. However, given the Amendments are not expected to be finalised until the end of 2024, we consider that preparers may consider an effective date of 1 January 2025 to be challenging. Preparers may face challenges around the data required to assess the factors relating to the ‘own-use’ requirements in 6.10.3, and in preparing the new disclosure requirements in 42V, which may require more lead time.
- A34. We recommend the IASB consider making these Amendments effective for accounting periods beginning on or after 1 January 2026, with early adoption permitted.