UKEB
UK Endorsement Board

# *Contracts Referencing Nature-dependent Electricity*: Technical discussion

## Executive Summary

| **Project Stage** | | | | | | | |
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| IASB | Research / Pipeline | Discussion paper | Redeliberation | Exposure Draft | Redeliberation | Final standard | Post Implementation Review |
| UKEB | Research / Influencing | Research / Influencing | Monitoring | Influencing | Monitoring | Endorsement | Influencing |
| **Project Scope** | Moderate | | | | | | |

**Purpose of the paper**

On 18 December 2024 the International Accounting Standards Board (IASB) concluded its narrow-scope standard setting project on Power Purchase Agreements (PPAs) and published *Contracts Referencing Nature-dependent Electricity – Amendments to IFRS 9 and IFRS 7* (the amendments).

At its December 2024 meeting, the UKEB approved the Project Initiation Plan for the endorsement of these amendments. As part of the approved approach and plan for the project, it was agreed that the Board would have the opportunity for a technical discussion of the amendments at its January 2025 meeting.

The purpose of this paper is to provide an overview of the amendments and highlight any significant changes from the Exposure Draft *Contracts for Renewable Energy* (ED), published in May 2024. This information is presented to the Board to facilitate a technical discussion which will inform the Draft Endorsement Criteria Assessment. Minor amendments to IFRS 9 *Financial Instruments* (IFRS 9) and IFRS 7 *Financial Instruments: Disclosures* (IFRS 7) and consequential amendments to other IFRS Accounting Standards are not covered in this paper.

The paper includes a summary of the Secretariat's analysis of the key changes from the ED. Additionally, the paper presents the Secretariat's initial assessment of the extent to which any of the issues identified during the project to date, including in the influencing phase, may represent potential consideration for endorsement.

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| Summary of the Issue |
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| The key changes and requirements introduced by the amendments[1] are summarised below.<br>1. The amendments apply only to contracts which reference nature-dependent electricity. Such contracts expose an entity to variability in the contracted volume of electricity which is generated from natural sources which cannot be controlled.<br>2. The amendments extend the 'own-use' exception as set out in paragraph 2.4 of IFRS 9 to contracts to purchase nature-dependent electricity which meet certain conditions.<br>3. Entities are permitted to apply cash flow hedge accounting to hedging relationships in which the hedged item is a variable amount of forecast electricity transactions and the hedging instrument is a contract referencing nature-dependent electricity.<br>4. Entities are required to disclose information about their contracts referencing nature-dependent electricity. |
| **Decisions for the Board** |
| The Board is not asked to make any decisions but is invited to share views on any of the following:<br>**Appendix A**<br>1. Do Board members have any comments or questions on the scope of the amendments, as summarised in Appendix A?<br>2. Do Board members agree with the Secretariat's preliminary assessment of the scope of the amendments set out in the table at the end of Appendix A?<br>3. Do Board members have any comments or questions on the own-use amendments or the net-purchaser assessment, as summarised in Appendix A?<br>4. Do Board members agree with the Secretariat's preliminary assessment of the own-use amendments set out in the table at the end of Appendix A?<br>**Appendix B**<br>1. Do Board members have any comments or questions regarding the hedge accounting amendments, as summarised in Appendix B?<br>2. Do Board members agree with the Secretariat's preliminary assessment of the hedge accounting amendments set out in the table at the end of Appendix B? |

[1] The amendments also include additions to the Illustrative Examples which accompany IFRS 9 *Financial Instruments* and the Basis for Conclusions of IFRS 9 and IFRS 7 *Financial Instruments: Disclosures*. As these are not mandatory parts of the IFRS Accounting Standards, and therefore not adopted for use in the UK, they are excluded from the endorsement assessment work.

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| 3. | Do Board members have any comments or questions regarding the disclosure elements of the amendments, as summarised in Appendix B? |
| 4. | Do Board members agree with the Secretariat's preliminary assessment of the disclosure amendments set out in the table at the end of Appendix B? |
| **Overarching question** | |
| 5. | Do Board members wish to highlight any aspects of the amendments summarised in the Appendices where further technical work or clarification should be considered by the Secretariat in drafting the Draft Endorsement Criteria Assessment for the February 2025 UKEB meeting? |

**Recommendation**

Not applicable.

**Appendices**

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| Appendix A | Scope of the amendments and 'own-use' amendments |
| Appendix B | Hedge accounting amendments, disclosure requirements, and effective date and transition requirements |

**Background to the amendments**

In June 2023, the IFRS Interpretations Committee (IFRIC) received a submission regarding the application of paragraph 2.4 of IFRS 9 (the 'own-use' exception[2]) to certain contracts for the procurement of renewable energy, commonly known as physical PPAs[3]. As a result, a recommendation[4] was made to the IASB to develop a narrow-scope amendment to address the issue.

In considering the issue, IFRIC received feedback from stakeholders that similar application questions arise when accounting for virtual PPAs[5]. The IASB noted that resolving these issues for virtual PPAs is more complex, because they are derivative contracts, but expressed a view that hedge accounting might be a potential solution to better reflect the purpose and objectives of virtual PPAs[6].

Consequently, the IASB added a narrow-scope standard setting project to the workplan, to develop amendments to permit certain PPAs to meet the own-use and hedge accounting requirements and require entities to provide relevant disclosure[7].

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2 The 'own use' exception applies to certain contracts that would otherwise be accounted for as financial instruments at fair value, and results in these contracts being accounted for as executory contracts.

3 Physical power purchase agreements are contracts for the receipt or delivery of electricity.

4 June 2023 IFRIC Staff Paper Agenda Reference 2.

5 Virtual PPAs are not contracts for the receipt or delivery of electricity. They typically require net settlement of the difference between the fixed contract price and the market price for the contracted volume of electricity.

6 July 2023 IASB meeting staff paper 12, paragraphs 53 – 62.

7 See December 2023 IASB Staff Paper agenda reference 3 and January 2024 IASB General Update Paper 5 Appendix A

The IASB's proposals were set out in the ED, published on 8 May 2024 with a 90-day consultation period ending on 7 August 2024. The UKEB submitted its Final Comment Letter on the ED to the IASB on 6 August 2024.

The IASB published the final amendments to IFRS 9 and IFRS 7 on 18 December 2024.

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# Appendix A: *Contracts Referencing Nature-dependent Electricity* - scope and own-use

## (i) Scope

A1. The scope of the amendments is set out in paragraphs 2.3A and 2.3B of IFRS 9. A summary of the key changes between the Exposure Draft *Contracts for Renewable Electricity* (ED) and the final amendments is included in the table at the end of this paper.

A2. The scope of the amendments is limited to contracts which reference nature-dependent electricity. Such contracts expose an entity to variability in the contracted volume of electricity, because the electricity is generated from natural sources which cannot be controlled e.g., the weather.

A3. Both physical[1] and virtual[2] power purchase agreements (PPAs) could be in scope of the amendments.

A4. Although contracts within the scope of these amendments often include renewable energy certificates (RECs), the amendments do not address the accounting for RECs.

A5. The amendments shall not be applied to any contract, item or transaction other than contracts referencing nature-dependent electricity.

### Secretariat analysis

A6. PPAs are often contractually complex and can vary significantly by jurisdiction and according to the structure and operation of the relevant energy market. Therefore, the challenge for the Internation Accounting Standards Board (IASB) in developing the amendments has been to ensure that they are clearly and consistently understandable by all entities applying them.

A7. For example, respondents to the ED asked the IASB to explain the meaning of 'nature-dependent' electricity[3], and there has been some debate amongst members of the IASB as to whether nature (or natural forces) can be said to control the source of electricity production. In relation to whether a contract

1 Physical power purchase agreements are contracts for the receipt or delivery of electricity.
2 Virtual PPAs are not contracts for the receipt or delivery of electricity. They typically require net settlement of the difference between the fixed contract price and the market price for the contracted volume of electricity.
3 September 2024 IASB meeting agenda paper 3A, paragraph 32

exposes an entity to the risk of exposure to variability in contracted volume (see paragraph A2), stakeholders asked the IASB to clarify the extent to which they needed to consider mechanisms to mitigate this risk, for example through contractual features such as 'caps' and 'floors' and contracts with intermediaries to smooth intermittent supply of electricity[4].

A8. In drafting the amendments, the IASB has emphasised[5] the importance of assessing the substance of contractual rights and obligations (including for contracts with intermediaries) to determine the appropriate accounting. Entities may have to use judgement to determine whether or not their contracts are in scope of the amendments.

A9. The IASB has however provided some clarification relating to the exposure to variability, to indicate that contracts with certain risk mitigation features, such as caps and floors, are capable of being within the scope of these amendments[6].

A10. Initial feedback from the Financial Instruments Working Group and other stakeholders is broadly supportive of the amendments, acknowledging that several concerns raised in relation to the ED have been addressed. No significant concerns have been drawn to our attention in relation to the scope of the amendments.

A11. The table at the end of this paper includes a summary of the key changes between the ED and final amendments, and the Secretariat's initial assessment of considerations for endorsement.

| **Questions for the Board** |
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| 1. Do Board members have any comments or questions on the scope of the amendments? |
| 2. Do Board members agree with the Secretariat's preliminary assessment of the scope of the amendments set out in the table at the end of this paper? |

4 September 2024 IASB meeting agenda paper 3B, paragraph 33
5 September 2024 IASB meeting agenda paper 3A, paragraph 17
6 Paragraph BC2.18D of the Amendments to the Basis for Conclusions on IFRS 9

# (ii) The own-use exception

## The own-use assessment

A12. Paragraph 2.4 of IFRS 9 states that the own-use exception applies where the relevant contract was entered into and continues to be held in accordance with an entity's expected purchase, sale[7] or usage requirements (emphasis added).

A13. It follows that a contract that was entered into for any purpose other than to meet an entity's expected purchase, sale or usage requirements cannot be said to meet the own-use exception at a later date due to a change in circumstances.

A14. In addition, where a contract meets the own-use exception at inception, an entity must make a continuous assessment[8] of whether the contract continues to be held in accordance with an entity's expected purchase, sale or usage requirements. If this is no longer the case, then the contract will fall into scope of IFRS 9 for the remainder of its duration.

## Amendments to the own-use exception

A15. A summary of the key changes between the ED and the amendments is included in the table at the end of this paper. The IASB has added application guidance at B2.7 – B2.8 to clarify "when sales of electricity during the contract period are still in accordance with the entity's expected electricity usage requirements"[9]. In summary, sales under a contract within the scope of the amendments are not necessarily inconsistent with meeting the own-use exception at paragraph 2.4 of IFRS 9 if the entity has been, and expects to be, a net purchaser of electricity for the contract period.

A16. Paragraph B2.8 explains that in assessing whether it has been and expects to be a net purchaser, an entity shall consider reasonable and supportable information available without undue cost or effort and make the assessment over a reasonable period of time. The guidance further explains that in relation to past purchases, a reasonable amount of time shall not exceed 12 months.

A17. Further explanation is provided in the amendments to the Basis for Conclusions on IFRS 9, which states at BC2.18H that the IASB intends a reasonable period of time to typically be a short period but introduced the 12-month limit to allow for seasonal cycles of production for some types of nature-dependent electricity.

A18. These amendments do not alter the 'one way' application of the own-use rules (see paragraphs A13 and A14). Other than at the initial application of these amendments, an entity is required to make the own-use assessment at inception

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7 For example, from the perspective of the counterparty to a contract referencing nature-dependent electricity, or any other commodity, where from their perspective the contract is for the sale of electricity or other commodity.

8 September 2024 IASB meeting staff paper 3B, paragraph 55

9 Amendments to the Basis for Conclusions on IFRS 9, paragraph BC2.18B

of the contract and continue to assess whether it meets this test over the life of the contract. If at any point a contract fails the own-use test, it must be accounted for at fair value thereafter for its remaining duration.

A19. Except at the initial application of these amendments, there are no circumstances in which a contract within the scope of these amendments could move from fair value to own-use.

A20. As explained in Appendix B, the transitional requirements for the own-use elements require retrospective application using the facts and circumstances at the date of initial application.

## Secretariat analysis

A21. It is expected that certain physical PPAs for receipt of electricity which were previously recognised as derivatives on the balance sheet will now be accounted for as executory contracts[10]. In effect, certain contracts previously considered to fail own-use may now meet the own-use exception as a result of the amendments.

A22. Contracts referencing nature-dependent electricity are typically bespoke, complex, and may have a very long term. A few respondents to the ED considered that fair value measurement provides the most useful information about those risks[11]. Paragraph 7 of the UKEB Final Comment Letter (FCL) stated that discussions with UK stakeholders had not revealed any “clear technical arguments in favour of applying ‘own use’ treatment to the defined contracts.” However, feedback from UK stakeholders was supportive of the own-use amendments given the practical and operational challenges in obtaining reliable valuations for these highly complex and long-term contracts. In addition, we have heard nothing to suggest that UK investors prefer fair value treatment for these contracts. This is consistent with feedback received by the IASB from investors, that fair value accounting for physical PPAs “does not provide useful information about the performance of the entity.”[12]

A23. A number of the IASB’s stakeholders (including the UKEB) have recognised the importance of adequate disclosure, to enable investors and management to understand the long-term cash flows under the contracts and the risks they entail[13].

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10 An entity recognises its rights and obligations under an executory contract only to the extent of either party’s performance under the contract (paragraph 4.58 of the *Conceptual Framework for Financial Reporting*). Applying this to a contract to purchase nature dependent electricity, the purchasing entity would recognise (amongst other things) the cost of the electricity delivered under the contract for the financial reporting period as an expense.

11 September 2024 IASB meeting staff paper 3B, paragraph 13

12 ED, paragraph B14. At its September 2024 meeting, the IASB referred to a comment letter from an investor organisation to support the view put forward at B14 (see paragraph 14 of staff paper 3B)

13 The UKEB, the Canadian Accounting Standards Board and the Financial Accounting Standards Board all commented on the need for adequate disclosures at the Accounting Standards Advisory Forum on 27 September 2024.

## Possible impacts of availability of storage

A24. The way in which electricity markets operate and related contracts are structured is likely to change. Although it is difficult to anticipate what those developments will be with any certainty, one aspect which has been referred to in discussions on this project is the availability of storage[14]. The UKEB Secretariat's initial view is that if electricity storage becomes available and economically feasible in a particular market, then the amendments may become less important, or may no longer be required in relation to new contracts.

A25. However, this will depend to a large extent on which entity in the supply chain controls any storage[15], and the extent to which existing contracts which have 20-25 years remaining are affected by these developments.

A26. From our engagement with industry experts, it is not expected that large battery storage capacity will be technologically or economically viable for large corporate consumers of power (e.g. retailers, those with large data centres) in the near to medium term. Therefore, for those entities currently party to contracts within the scope of the amendments, we do not expect their need for these amendments to be significantly altered in the short to medium term.

A27. In addition, feedback we have received indicates that developments in battery storage may allow renewable generators, or other intermediaries, to provide services to smooth the supply of electricity into the grid. These developments may also facilitate the development of new contracts that are more closely aligned with the power needs of end users. It is possible that over time this may reduce the need for these amendments as new contracts are entered into. However, given the long-term nature of some existing contracts, this is not expected to change the landscape within the short term.

## Dissenting opinions

A28. Two IASB members (Bruce Mackenzie and Robert Uhl) dissented from approving the amendments for issue.

A29. Mr Mackenzie and Mr Uhl are of the view that the amendments would permit "an exception from IFRS 9 for situations in which an entity knows it will settle net portions of the contract" at inception of the contract[16]. This might result in misleading information for users of accounts[17].

A30. Mr Mackenzie and Mr Uhl also consider that the amendments contain more lenient requirements for contracts referencing nature-dependent electricity than

[14] September 2024 Accounting Standards Advisory Forum meeting and September 2024 IASB meeting
[15] For example, whether the battery capacity is held by the electricity generator, an electricity market intermediary, or the end corporate consumer.
[16] Dissenting opinions to the amendments, paragraph DO9
[17] Dissenting opinions to the amendments, paragraph DO7

for other contracts for non-financial items, raising questions about whether the accounting requirements result in a neutral[18] depiction of the relevant financial information.

A31. The UKEB FCL expressed concerns about a departure from principle-based accounting. The letter noted that 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."[19] The UKEB's FCL notes that discussions with stakeholders in the influencing stage of the project did not yield any clear technical arguments in favour of applying own-use treatment to contracts in scope of the amendments (paragraph 7 of the FCL). However, the UKEB recognised the demand from UK stakeholders for a pragmatic accounting solution given the increase in usage of contracts referencing nature-dependent electricity and the difficulty of obtaining fair valuations for such contracts. In addition, investors are not calling for fair value treatment for these contracts (paragraph 8 of the FCL).

A32. It should also be noted that the own-use amendments are targeted at those contracts which are entered into for the purchase of nature-dependent electricity for an entity's own usage requirements. In the absence of the own-use amendments, such contracts would not qualify for the own-use exception from IFRS 9 due to the design and operation of electricity markets and the fact that electricity is not easily stored.

A33. The scope of the amendments is tightly constrained to contracts referencing nature-dependent electricity with specific characteristics, limiting the risk of unintended consequences. In addition, entities with contracts in scope of the own-use amendments will be required to disclose details of the contractual terms and conditions that expose the entity to volume variability and risk of oversupply, information about future cash flows under the contract, and qualitative information about how the entity assesses whether a contract might become onerous. This information is expected to help investors understand the risks inherent in contracts applying the own-use amendments.

A34. The table at the end of this paper includes a summary of the key changes between the ED and final amendments, and the Secretariat's initial assessment of considerations for endorsement.

[18] Paragraph 2.13 of the *Conceptual Framework for Financial Reporting* states that "[t]o be a perfectly faithful representation, a depiction would…be complete, neutral and free from error."

[19] Paragraph 7 of the UKEB FCL

| Questions for the Board | |
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| 3. | Do Board members have any comments or questions on the own-use amendments or the net-purchaser assessment? |
| 4. | Do Board members agree with the Secretariat's preliminary assessment of the own-use amendments set out in the table at the end of this paper? |

## Scope: summary of key changes between the ED and the amendments

| **Proposals in the ED** | **Stakeholder feedback, including UKEB FCL** | **Final amendments** |
|---|---|---|
| **Scope** – characteristics of contracts in scope | | |
| The ED acknowledges that contracts for renewable electricity can be "structured in many ways." The ED lists the characteristics of renewable electricity contracts in scope of the proposed amendments:<br>a) The electricity is generated from a nature-dependent source (e.g., wind, sun and water), resulting in variability in the timing and volume of supply.<br>b) 'Pay-as-produced' contractual terms expose the purchaser to "substantially all the volume risk under the contract". Volume risk is | Paragraph A2 of the UKEB FCL observed that 6.10.1 of the ED is not entirely clear on whether the amendments would apply to virtual as well as physical PPAs.<br>Paragraph A3 of the UKEB FCL recommended that the IASB consider defining the term 'contract for renewable electricity'. Other respondents to the ED had also asked for further explanation of the terms 'renewable electricity' and 'nature-dependent'.[20]<br>Paragraph 7 of the UKEB FCL stated that relying on labels such as 'pay-as-produced' may result in some common renewable electricity contracts being treated as derivatives, while other contracts with higher potential volume | The IASB has replaced the term 'contracts for renewable electricity' with 'contracts referencing nature-dependent electricity' and the final amendments clearly state that both virtual and physical PPAs are in scope.<br>The amendments explain that a contract referencing nature-dependent electricity exposes an entity to variability in the underlying amount of electricity because the source of electricity generation depends on uncontrollable natural conditions (e.g., the weather).<br>The IASB has removed the reference to 'pay-as-produced' and generally avoided the use of labels in the final amendments.<br>(Paragraph 2.3A) |

[20] September 2024 IASB meeting agenda paper 3A, paragraph 32

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| Proposals in the ED | Stakeholder feedback, including UKEB FCL | Final amendments |
|---|---|---|
| "the risk that the volume of electricity produced does not align with the purchaser's demand for electricity at the time of production." (Paragraph 6.10.1) | risk are accounted for as contracts for own-use. Respondents to the ED also observed that "the contractual features of NDE contracts are not uniform or standardised and that new features are being included as the market continues to develop."[21] | |
| **Scope** - limiting the scope of the amendments | | |
| The proposed amendments "provide exceptions to only the requirements in IFRS 9 specified in paragraphs 6.10.3–6.10.6" of the ED, relating to the own-use and hedge accounting proposals. All other applicable requirements in IFRS 9 continue to apply to contracts for renewable electricity in scope of the proposed amendments. Entities are not permitted to apply the proposed amendments "by | Paragraph A6 of the UKEB FCL expressed a concern that the reference to 'exceptions' in 6.10.2 of the ED could be taken to mean a wholesale exception to paragraph 2.4 or Section 6.3 of IFRS 9 for contracts in scope of the amendments. The IASB acknowledged the concern and clarified that the amendments are more akin to "additional or supplementary requirements that apply to specified situations"[22] than exceptions. | The paragraph referring to exceptions has been removed. The final amendments state that entities are not permitted to apply the final amendments "by analogy to other contracts, items or transactions." (Paragraph 2.3B) |

21 September 2024 IASB meeting agenda paper 3A, paragraph 44
22 October 2024 IASB meeting agenda paper 3A, paragraph 18

| Proposals in the ED | Stakeholder feedback, including UKEB FCL | Final amendments |
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| analogy to other contracts, items or transactions.”<br>(Paragraph 6.10.2) | | |

| Scope: preliminary assessment of potential considerations for endorsement |
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| PPAs are often contractually complex and can vary significantly by jurisdiction and according to the structure and operation of the relevant energy market. The challenge for the IASB in developing the amendments has been to ensure that they are clearly and consistently understandable by all entities applying them (see paragraphs A6 and A7 above).<br>Previous UKEB discussions have highlighted the risk of unintended consequences if the scope was too wide. Feedback from advisory groups and other stakeholders during the influencing phase also identified concerns about the wording of the draft scope. As set out above, the IASB has addressed the main concerns highlighted in the FCL.<br>However, it remains the case that determining whether or not a contract is in scope of the amendments may require an exercise of judgement.<br>**Mitigating factors**<br>The amendments are very narrowly scoped. The amendments may only be applied to contracts referencing nature-dependent electricity with specific characteristics. Entities are not permitted to apply the amendments by analogy to other contracts, items or transactions.<br>No significant concerns have been drawn to our attention in relation to the scope of the amendments.<br>Secretariat preliminary assessment: this is unlikely to be a significant consideration for endorsement purposes. |

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## Own-use: summary of key changes between the ED and the amendments

| Proposals in the ED | Stakeholder feedback, including UKEB FCL | Final amendments |
|---|---|---|
| **Own-use** - application of paragraph 2.4 to contracts referencing nature-dependent electricity | | |
| In applying paragraph 2.4 to contracts in scope of the proposed amendments, an entity should consider various factors (see below). This should be done "at inception of the contract and at each subsequent reporting date."<br>(Paragraph 6.10.3) | Paragraph 7 of the FCL sets out the UKEB's key concern in relation to the own-use amendments, which is that the introduction of "an exception to an existing exception within IFRS 9" is an unwarranted departure from principle-based accounting. The IASB disagreed with this assessment and instead viewed the own-use amendments "as an extension of the own-use requirements that applies in particular circumstances."[23] | The IASB have clarified that the own-use amendments constitute application guidance to support entities in applying Paragraph 2.4 of IFRS 9 for specific circumstances. Therefore, these requirements have been moved from Section 6 of IFRS 9 ("Hedge Accounting") to Appendix B of IFRS 9 ("Application guidance").<br>The application guidance relating to the own-use assessment has been substantially reworded from the proposals in the ED (see below).<br>(Paragraph 2.8) |
| **Own-use** - sales of unused electricity | | |
| In applying paragraph 2.4 to contracts in scope of the proposed amendments, an entity should consider the reasons for sales of unused renewable electricity. | Paragraphs A10 and A11 of the UKEB FCL noted that volumes delivered under some contracts are significantly affected by seasonal variations, for example, the generation of power from solar panels. Such contracts would not | The IASB has incorporated the changes suggested in the UKEB FCL into B2.8 of the final amendments.<br>The final amendments set out that the volume risk under a contract may result in the entity having "no practical ability to avoid making sales of unused |

[23] September 2024 IASB meeting agenda paper 3B, paragraphs 9 - 10

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| Proposals in the ED | Stakeholder feedback, including UKEB FCL | Final amendments |
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| A sale is in accordance with the entity's expected purchase or usage requirements if it arises as a result of the entity's exposure to volume risk and the entity has no "practical ability to determine the timing or price of the sale" due to the design and operation of the electricity market. In addition, the entity must have an expectation of purchasing "at least an equivalent volume of electricity within a reasonable time (for example, one month) after the sale".<br><br>(Paragraph 6.10.3(b)) | meet the requirement to purchase an equivalent volume of electricity within a month. Most respondents to the ED raised similar concerns about seasonality, and some respondents suggested that a maximum of 12 months might be more reasonable[24]. | electricity because [of] the design and operation of the electricity market." Such sales are in accordance with the own use requirements at paragraph 2.4 of IFRS 9 if the entity is a net purchaser of electricity for the duration of the contract.<br><br>The 'equivalent volume' test has been replaced with a 'net purchaser' test. An entity is a net purchaser of electricity "if it buys sufficient electricity to offset the sales of any unused electricity in the same market in which it sold the electricity." Although the own-use assessment is performed at the entity level, it is the design and operation of the market in which the entity holds the contract for receipt that results in subsequent sales (see above). Therefore, the IASB has limited the net-purchaser assessment to the same market.<br><br>(Paragraph B2.7) |
| **Own-use** – volume of electricity to be delivered | | |
| In applying paragraph 2.4 to contracts in scope of the proposed amendments, an entity should | The requirement to consider "the purpose, design and structure of the contract" had been included by the | Wording relating to "the purpose, design and structure of the contract" removed. |

24 September 2024 IASB meeting agenda paper 3B, paragraph 72

| Proposals in the ED | Stakeholder feedback, including UKEB FCL | Final amendments |
|---|---|---|
| consider "the purpose, design and structure of the contract including the volumes of electricity expected to be delivered over the remaining duration of the contract."[25]<br><br>In making the own-use assessment, an entity may rely on "reasonable and supportable information available at the reporting date…for a period not shorter than 12 months after the reporting date (or the entity's normal operating cycle…)." The ED notes that there is no requirement to make detailed estimates for periods far in the future.<br><br>(Paragraph 6.10.3(a)) | IASB as a safeguard against 'oversized'[26] contracts. However, feedback to the ED did not support this element[27] and the IASB decided to replace it with the net purchaser condition.<br><br>Paragraph 6.10.3(a) states that an entity "is not required to make a detailed estimate for periods that are far in the future" when considering if a contract is held for an entity's expected purchase or usage requirements. Paragraph A8 of the UKEB FCL highlights the risk that this may be interpreted as a concession to the long-standing own-use requirements of paragraph 2.4 of IFRS 9. | The clarification on detailed estimates has been removed.<br><br>In assessing whether it is, and will continue to be, a net purchaser, an entity considers "reasonable and supportable information[28] (that is available without undue cost or effort) about its past, current and expected future electricity transactions over a reasonable amount of time" which, in relation to the assessment of past purchases shall not exceed 12 months.<br><br>(Paragraph B2.8) |

25 BC20(a) of the Basis for Conclusions on the ED explains that "If an entity enters into a contract that is expected to continuously deliver more electricity than the entity needs, such an 'oversized' contract would not be in accordance with the entity's expected usage requirements."
26 A contract which continuously delivers more electricity that an entity needs.
27 September 2024 IASB meeting agenda paper 3B, paragraph 56 - 58
28 September 2024 IASB meeting agenda paper 3B paragraph 83 states: "…the IASB used the phrase 'reasonable and supportable information' as this is a known and well understood phrase in IFRS 9 with regards to the requirements in paragraphs B5.5.49–B5.5.54 of IFRS 9."

| Own-use: preliminary assessment of potential considerations for endorsement |
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| It is expected that certain physical PPAs for receipt of electricity which were previously recognised as derivatives on the balance sheet at fair value will now be accounted for as executory contracts.<br><br>The UKEB's FCL expressed concerns about a departure from principle-based accounting and noted that consultation with UK stakeholders had not revealed any clear technical arguments in favour of applying own-use treatment to the defined contracts (see paragraph A31 above). Concerns have also been raised that widening the existing own-use requirements could risk unintended consequences or create an expectation of wider relaxations.<br><br>**<u>Mitigating factors</u>**<br><br>The IASB received feedback from investors that fair value accounting for physical PPAs "does not provide useful information about the performance of the entity"[29] which is consistent with what UK stakeholders have told us (paragraph A22 above). This is in part due to the practical and operational challenges in valuing these highly complex and long-term contracts.<br><br>The own-use amendments have been presented by the IASB as application guidance and are intended to be applied to contracts which are entered into by an entity to meet its own usage requirements only. The net purchaser assessment restricts the application to contracts where these amounts of electricity are being used by the entity. Therefore, information about the fluctuation in fair value of such contracts may not provide useful information for users.<br><br>The amendments are very narrowly scoped, aimed at reducing the risk of unintended consequences. In addition, entities with contracts in scope of the own-use amendments will be required to provide additional disclosure (see paragraph A33 above) to help investors understand the long-term cash flows and risks inherent in contracts applying the own-use amendments.<br><br>Since the amendments were issued, no significant concerns have been drawn to our attention in relation to the own-use amendments. |

29 ED, paragraph B14. At its September 2024 meeting, the IASB referred to a comment letter from an investor organisation to support the view put forward at B14 (see paragraph 14 of staff paper 3B)

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| Secretariat preliminary assessment: this is unlikely to be a significant consideration for endorsement purposes. |

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# Appendix B: *Contracts Referencing Nature-dependent Electricity* – (i) hedge accounting, (ii) disclosures and (iii) transition

## (i) Hedge accounting

B1. The hedge accounting amendments are applicable to contracts referencing nature-dependent electricity which do not meet the own-use exception in IFRS 9. A summary of the key changes between the Exposure Draft *Contracts for Renewable Electricity* (ED) and the final amendments is included in the table at the end of this paper.

B2. These contracts, which expose an entity to variability in the contracted volume of electricity[1], are often entered into to fix the price of electricity over the contract term and thereby 'hedge' the entity's exposure to price risk. They are accounted for as derivatives in the accounts since the value of the contract changes in response to the market price of electricity, with such changes recognised in profit or loss.

### Cash flow hedge accounting

B3. Cash flow hedging is employed to mitigate exposure to variability in future cash flows associated with, for example, a forecast transaction.

B4. Cash flow hedge accounting permits an entity to "defer the gain or loss on the hedging instrument to a period or periods in which the hedged expected future cash flows affect profit or loss" (IFRS 9 paragraph B6.5.2).

B5. Therefore, gains and losses on the hedging instrument which are an 'effective' hedge[2] are initially recognised in a cash flow hedge reserve and presented in other comprehensive income. These gains and losses are reclassified to profit or loss in the same period that the hedged item (e.g., a forecast transaction) is recognised in profit or loss. This reduces volatility in the income statement and enables a better representation of the "purpose and effect" of hedging instruments and of an entity's risk management activities[3] in the accounts.

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1 Paragraph 2.3A of the Amendments states that in scope contracts "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)."

2 Paragraph B6.4.1 of IFRS 9 states that hedge effectiveness "is the extent to which changes in the fair value or the cash flows of the hedging instrument offset changes in the fair value or the cash flows of the hedged item."

3 IFRS 9, paragraph 6.1.1

B6. Hedge accounting represents a departure from the normal accounting requirements for recognising gains and losses. Therefore, IFRS 9 permits hedge accounting only if a hedging relationship meets certain qualifying criteria.

B7. One of the qualifying criteria for a cash flow hedge of a forecast transaction is that the transaction must be 'highly probable' (IFRS 9 paragraph 6.3.3). The hedged item must also be designated with sufficient specificity at the inception of the hedge (IFRS 9 paragraph 6.3.7), meaning that an entity "can only designate a specified nominal amount of forecast electricity transactions if they will occur with enough certainty and consistency throughout the duration of the hedging relationship."[4]

B8. This posed a challenge for entities with contracts referencing nature-dependent electricity, which were exposed to variability in the contracted volume of electricity:

a) Sellers of nature-dependent electricity encountered difficulties in designating a fixed nominal amount of forecast electricity sales as the hedged item for the duration of the contract. The volume of electricity sales deemed to be highly probable (see paragraph B7) is likely to be much lower than the total amount of electricity expected to be produced and sold by the generation facility[5] for which the contract may provide a highly effective hedge of the entity's price risk. In addition, although the forecast transaction (which is the hedged item) must be highly probable, no such condition applies to the cash flows to be considered in valuing the hedging instrument. This difference in volume assumptions may result in hedge ineffectiveness.[6]

b) Purchasers of electricity can reliably estimate forecast electricity demand (e.g., by reference to past usage) and typically contract to purchase a proportion of total demand. Therefore, purchasers may not experience the same challenges as sellers in designating a fixed nominal amount of forecast electricity transactions as the hedged item. Nevertheless, hedge ineffectiveness may arise due to the variability in the amount of electricity expected to be delivered under the contract which is the hedging instrument[7].

B9. Although an entity may have entered into a contract referencing nature-dependent electricity to hedge its exposure to changes in the market price of electricity (paragraph B2), the volume variability inherent in the contract prevents the application of hedge accounting without these amendments.

4 Amendments to the Basis for Conclusions on IFRS 9, paragraph BC6.663
5 March 2024 IASB meeting agenda paper 3B, paragraphs 37 - 41
6 March 2024 IASB meeting agenda paper 3B, paragraphs 42 - 44
7 March 2024 IASB meeting agenda paper 3B, paragraphs 60

## Amendments to cash flow hedge accounting requirements

B10. The amendments allow an entity to apply cash flow hedge accounting to hedging relationships in which the hedged item is a variable amount of forecast electricity transactions and the hedging instrument is a contract referencing nature-dependent electricity.

B11. The variable amount designated as the hedged item is aligned to the variable amount of electricity expected to be delivered by a particular facility referenced in the contract which is the hedging instrument[8]. Therefore, the same volume assumptions are used to measure both the hedging instrument and the hypothetical derivative[9] for the purposes of measuring hedge effectiveness (see paragraph B8).

B12. Some respondents to the hedge accounting proposals in the ED queried if using the same volume assumptions would result in "the hedged item simply mirroring the hedging instrument"[10]. However, the International Accounting Standards Board (IASB) considered that the cash flows of the hedged item and the hedging instrument could be impacted by other factors besides the volume of electricity transactions[11].

## Hedge accounting Illustrative Example

B13. The IASB has included a qualitative Illustrative Example in the amendments to explain the application of the new requirements. The example sets out how a purchaser under a contract referencing nature-dependent electricity may apply the hedge accounting amendments.

B14. In its Final Comment Letter (FCL), the UKEB outlined aspects of the ED proposals which had been flagged by UK stakeholders as requiring clarification. The extent to which these issues have been addressed by the qualitative example included in the final amendments is set out in the table below.

| Hedge accounting issue | Addressed in Illustrative Example? |
|---|---|
| How to designate the hedged item (or component of an item) with sufficient specificity e.g. the appropriate confidence level to be used in forecasting the variable volume (paragraph A14 of FCL). | The IASB considers that designating "a variable nominal amount of electricity as the hedged item is not the same as |

8 October 2024 IASB meeting agenda paper 3A and summary
9 IFRS 9 paragraph B6.5.5 states "To calculate the change in the value of the hedged item for the purpose of measuring hedge ineffectiveness, an entity may use a derivative that would have terms that match the critical terms of the hedged item (this is commonly referred to as a 'hypothetical derivative')…"
10 October 2024 IASB meeting agenda paper 3A, paragraph 73
11 Amendments to the Basis for Conclusions on IFRS 9, paragraph BC6.677

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|---|---|
| | designating an absolute amount that varies from one period to the next."[12]<br><br>Paragraph IE152 of the Illustrative Example outlines that Entity A designates as the hedged item "a variable nominal amount of electricity purchases per month that is aligned to the variable nominal amount of electricity that Wind Farm X is expected to deliver to the market as referenced in the hedging instrument. Entity A allocates the first purchases made each month to the variable nominal amount designated." |
| How to determine the volume of future electricity transactions that are highly probable for periods far into the future (paragraph A14 and A15 of FCL). | The IASB has taken the view that "entities that currently purchase and use electricity will continue to do so in the future. Therefore, in the absence of evidence to the contrary an entity would expect its electricity purchases based on its past and current purchase practice to continue for the hedged term"[13] (see paragraph IE152 of the Illustrative Example).<br><br>The IASB has also clarified that if cash flows under the contract (i.e. the hedging instrument) arise only on occurrence of a hedged sale or purchase, such forecast transactions are deemed to be highly probable by nature[14]. |
| How to build the hypothetical derivative. | Paragraph IE158 of the Illustrative Example states that "Entity A uses the same volume assumptions it uses to measure the contract referencing nature-dependent electricity to construct a hypothetical derivative to measure the changes in present value of the hedged item." However, price assumptions must be based on the market in which Entity A purchases electricity. |

12 Amendments to the Basis for Conclusions on IFRS 9, paragraph BC6.665
13 Amendments to the Basis for Conclusions on IFRS 9, paragraph BC6.672
14 Amendments to the Basis for Conclusions on IFRS 9, paragraph BC6.674

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|---|---|
| How to account for hedge ineffectiveness arising from e.g., differences in timing of the supply of electricity underlying the hedging instrument and hedged purchases of electricity (paragraph A16 of FCL). | Aligning the volume assumptions underlying the measurement of the hedged item and the hedging instrument ensures that hedge ineffectiveness caused by volume uncertainty does not arise. Other sources of hedge ineffectiveness may arise, but this does not automatically preclude the possibility of an economic relationship between the hedged item and the hedging instrument. IFRS 9 does not require that a hedging relationship be perfectly effective[15].<br><br>Paragraph IE155 of the Illustrative Example highlights two possible sources of hedge ineffectiveness, being the difference in electricity prices between Region One and Region Two and structural price differences caused by differences in the timing of demand and supply of electricity. Paragraphs IE158 and IE159 outline one possible method for measuring the hedged item and the hedging instrument. |
| Need for clarity on the reclassification adjustment (paragraph A17 of FCL). | Paragraph IE159 of the illustrative example states that Entity A adjusts the cash flow hedge reserve in accordance with paragraph 6.5.11(a) of IFRS 9. |

## Secretariat analysis

B15. In common with most other respondents to the ED[16], the UKEB welcomed the hedge accounting proposals. The proposals were expected to result in a more accurate reflection in the accounts of the economic substance of some arrangements involving contracts referencing nature-dependent electricity (paragraph A12 of FCL). However, the UKEB observed that the complexity of the proposals meant there was a need for “detailed application guidance and illustrative examples to show preparers and users how the proposals are intended to apply” (paragraph A12 of FCL).

15 Amendments to the Basis for Conclusions on IFRS 9, paragraph BC6.678
16 August 2024 IASB meeting agenda paper 3, page 20

B16. The IASB has included one Illustrative Example in the final amendments, to support consistent application[17]. This example is qualitative and illustrates one possible way in which a purchaser under a contract referencing nature-dependent electricity might apply the hedge accounting amendments. The example explains the application of key principles without going into the detailed mechanics of e.g., nature-dependent electricity contracts, electricity markets and hedge-accounting.

B17. During the ED consultation, some UK stakeholders told the UKEB that any example specific to the hedge accounting amendments could have wider repercussions and risked impacting on existing guidance within IFRS 9 and the application of general hedge accounting principles. However, initial outreach with UK stakeholders in the endorsement phase of this project suggests that the Illustrative Example will support the application of the amendments. In addition, the hedge accounting amendments are unlikely to disturb existing IFRS 9 requirements because they are narrowly scoped, they clearly state that the other hedge accounting requirements of IFRS 9 continue to apply[18], and they are not permitted to be applied "by analogy to other contracts, items or transactions."[19]

B18. The Illustrative Example is relatively high level and does not cover every scenario and eventuality (see paragraph B16 above). It is likely that the application of the hedge accounting amendments will require the exercise of judgement. In addition, although the scope of the amendments has been tightly constrained, it remains to be seen whether entities apply the guidance applicable to the amendments more generally to their hedging relationships[20]. While the Illustrative Example is expected to improve consistency in how the amendments are applied, it is likely that there will be demand for accounting firms to develop additional guidance. Given the complexity of the subject matter, however, it is our understanding that this process is likely to take a number of months.

B19. While it is difficult to estimate the population that will be impacted by the hedge accounting amendments at this early stage, we expect that large corporates are most likely to be affected. Such entities have access to dedicated finance teams and technical support and so would generally be expected to be able to deal with the technical complexity of the amendments.

## Dissenting opinions

B20. One member of the IASB dissented from approving the amendments for issue. Mr Mackenzie disagreed with the hedge accounting proposals, as he could see no principle-based reason for introducing a new variant of cash flow hedging for

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17 August 2024 IASB meeting agenda paper 3, page 20

18 Paragraph 6.10.1 of the Amendments to IFRS 9

19 Paragraph 2.3B of the Amendments to IFRS 9

20 For example, it is generally accepted that forecast transactions occurring far into the future are unlikely to be highly probable. However, in the context of a nature-dependent electricity contract, a purchaser assumes that it will continue to buy electricity over the hedged term (i.e. the contract term) based on its past and current usage unless it has information to the contrary (see IE153 of the Illustrative Example and BC6.672 of the Amendments to the Basis for Conclusions on IFRS 9).

contracts within the narrow scope of the amendments and not more widely. Paragraph 13 of the UKEB FCL recommended that the IASB consider whether there is merit to extending these changes to other cash flow hedging relationships, as part of its post implementation review of IFRS 9 Hedge Accounting.

B21. The table at the end of this paper includes a summary of the key changes between the ED and final amendments, and the Secretariat's initial assessment of considerations for endorsement.

| **Questions for the Board** | |
|---|---|
| 1. | Do Board members have any comments or questions regarding the hedge accounting amendments? |
| 2. | Do Board members agree with the Secretariat's preliminary assessment of the hedge accounting amendments set out in the table at the end of this paper? |

## (ii) Disclosures

B22. Entities will be required to disclose information about their contracts referencing nature-dependent electricity[21]. A summary of the key changes between the ED and the final amendments is included in the table at the end of this paper.

B23. Where the own-use amendments are applied to a contract for the purchase of electricity, an entity must disclose the terms and conditions which expose it to volume variability and risk of oversupply, as well as information to demonstrate that it meets the net purchaser condition[22] to apply own-use. To compensate investors for the loss of fair value information, an entity must provide information about future cash flows under the contract and how it monitors whether the contract has become onerous.

B24. When preparing the disclosures required by paragraph 23A of IFRS 7[23], entities applying the hedge accounting amendments must disaggregate information for contracts referencing nature-dependent electricity and disclose this separately.

21 Including for an entity applying IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

22 "An entity is a net purchaser of electricity if it buys sufficient electricity to offset the sales of any unused electricity in the same market in which it sold the electricity. In determining whether an entity is a net purchaser of electricity, the entity shall consider reasonable and supportable information (that is available without undue cost or effort) about its past, current and expected future electricity transactions over a reasonable amount of time" (B2.7 and B2.8 of the Amendments to IFRS 9).

23 "…an entity shall disclose by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity."

UK Endorsement Board

## Secretariat analysis

B25. The UKEB Secretariat's view is that the disclosure amendments are much improved from the proposals in the ED.

B26. The proposals in the ED included wide ranging requirements to disclose information about all the contracts for renewable electricity an entity is party to (paragraph 42T of the ED). The final amendments, however, take a more proportionate approach.

B27. Required disclosures are generally limited to information about contracts for the purchase of nature-dependent electricity which have been accounted for in accordance with the own-use amendments and contracts accounted for at fair value applying the hedge accounting amendments. The only disclosure requirement in relation to nature-dependent electricity contracts that meet the own-use conditions without the need to apply B2.7 and B2.8 relates to a cross-referencing requirement where information is provided about these contracts in another note (paragraph 30C of IFRS 7). The final amendments address many of the concerns highlighted in paragraphs 15 to 17 of the FCL and take into account that the disclosure requirements of other IFRS standards are sufficient for certain contracts referencing nature-dependent electricity in scope of the amendments.

B28. The UKEB Secretariat consider that in general it should be relatively clear whether an entity falls within the scope of the disclosure requirements in paragraph 30A of IFRS 7. If an entity which is party to a contract referencing nature-dependent electricity is required to apply the guidance in B2.7 and B2.8 to achieve own-use accounting for the contract, they will be required to provide the disclosures set out in the amendments. However, if an entity is clearly within the own-use requirements of paragraph 2.4 of IFRS 9 without any need to consider B2.7 and B2.8 (e.g., because they do not sell any of the electricity that is delivered under the contract), it is our understanding that the entity would not be required to provide the additional disclosures in 30A of IFRS 7.

B29. It appears likely that entities will need to exercise judgement in some instances to conclude whether the additional disclosures are required or not (i.e., whether they need the amendments to achieve own-use accounting). However, own-use accounting for such contracts is already an area where the exercise of judgement is required. We believe that overall, these disclosure requirements should provide better information for users about contracts that are within scope of the amendments.

B30. In developing the amendments, one of the IASB's objectives was to require disclosures which would allow users to understand how an entity's contracts referencing nature-dependent electricity impact its financial performance. This is covered by paragraph 30A(c) of IFRS 7, which requires an entity to make this disclosure based on the information used in the net purchaser assessment for the reporting period.

B31. This requirement is in line with the UKEB's recommendation for the IASB to require disclosure relating to judgements that result in contracts qualifying for the own-use exception (see paragraph A21 of the FCL). Our initial outreach with UK stakeholders in the endorsement phase of this project suggests that making the disclosure required by paragraph 30A(c) of IFRS 7 would not cause undue difficulties although there is some concern that the data collection may be more complex than assumed by the IASB. For example, it may be difficult to estimate the price to be used in calculating the costs of electricity purchases to offset any sales arising under the contracts[24], where these are a subset of a much larger volume of electricity purchases (i.e. which specific units are the offsetting ones).

## (iii) Effective date and transition

B32. The amendments have an effective date of 1 January 2026. Early application is permitted. A summary of the key changes between the ED and the final amendments is included in the table at the end of this paper.

B33. The own-use amendments must be applied based on the facts and circumstances in existence at the date of initial application. The amendments require retrospective application, without the need to restate comparative information.

B34. The hedge accounting amendments must be applied prospectively.

B35. The table at the end of this paper includes a summary of the key changes between the ED and final amendments, and the Secretariat's initial assessment of considerations for endorsement.

| **Questions for the Board** | |
|---|---|
| 3. | Do Board members have any comments or questions regarding the disclosure elements of the amendments? |
| 4. | Do Board members agree with the Secretariat's preliminary assessment of the disclosure amendments set out in the table at the end of this paper? |
| 5. | Do Board members wish to highlight any aspects of the amendments where further technical work or clarification should be considered by the Secretariat in drafting the Draft Endorsement Criteria Assessment for the February 2025 UKEB meeting? |

24 Paragraph 30A(c)(iii) of the Amendments to IFRS 7

## Hedge accounting: summary of key changes between the ED and final amendments

| Proposals in the ED | Stakeholder feedback, including UKEB FCL | Final amendments |
|---|---|---|
| **Hedge accounting** – designating the hedged item (IFRS 9 paragraph 6.4.1(b)) | | |
| If a contract referencing nature-dependent electricity is designated as the hedging instrument in a cash flow hedging relationship, the hedged item may be designated as a variable amount of forecast electricity transactions (sales or purchases).<br><br>(Paragraph 6.10.4) | In common with the UKEB (see paragraph 11 of the FCL) most respondents agreed with the hedge accounting proposals in the ED. Some respondents asked the IASB to explain the relationship between the proposals in the ED and the existing hedge accounting requirements of IFRS 9.<br><br>The UKEB emphasised the need for application guidance and illustrative examples to support the proposals, given their technical complexity (see paragraph 12 of the FCL). | The final amendments state that entities must apply the amendments in addition to (and not in lieu of) the requirements of paragraph 6.3.7 of IFRS 9 (“Designation of hedged items”).<br><br>(Paragraph 6.10.1)<br><br>The amendments now include an illustrative example of hedge accounting for a nature-dependent contract to purchase electricity. This example accompanies but is not part of IFRS 9. |
| **Hedge accounting** – identifying the hedged item | | |
| The hedged item must be specified as “the variable volume of electricity to which the hedging instrument relates”, provided this doesn’t exceed | Stakeholders raised various application questions concerning how to document the forecast transaction (i.e., the hedged item) with sufficient specificity | The IASB have clarified that entities are not required to specify absolute volumes of electricity for different periods[27] but should specify the origin |

[27] Amendments to the Basis for Conclusions on IFRS 9, paragraph BC6.665

| Proposals in the ED | Stakeholder feedback, including UKEB FCL | Final amendments |
|---|---|---|
| the volume of future electricity transactions that are highly probable (however, see exception at 6.10.5, below).<br><br>(Paragraph 6.10.4) | in terms of timing and magnitude[25]. For example, some respondents asked if it was necessary to designate different absolute volumes of electricity for every period, and how to identify if a hedged transaction has occurred[26].<br><br>Requirements relating to the 'highly probable' assessment are now included in paragraph 6.10.2, below. | of the hedged item, being delivery of electricity from a particular facility[28].<br><br>The amendments state that an entity is permitted to designate a hedged item that is "aligned with the variable amount of nature-dependent electricity expected to be delivered by the generation facility as referenced in the hedging instrument."<br><br>(Paragraph 6.10.1) |
| **Hedge accounting** – the 'highly probable' assessment (IFRS 9 paragraph 6.3.3) | | |
| If an entity designates a variable volume of electricity sales as the hedged item, such sales "are not required to be highly probable if the hedging instrument relates to a proportion of the total future renewable electricity sales from the | The IASB received a number of application questions about the highly probable assessment, particularly for purchasers of electricity. For example, respondents asked how to determine whether future electricity purchases are highly probable and the appropriate | The IASB acknowledged the particular challenges of performing the highly probable assessment for contracts refencing nature-dependent electricity but observed that it is a long-standing requirement of IFRS 9, applicable to all cash flow hedging relationships. Therefore, the IASB decided not to add application guidance on this topic to IFRS 9, |

25 The March 2019 IFRS Interpretations Committee' Agenda Decision *Application of the Highly Probable Requirement when a Specific Derivative is Designated as a Hedging Instrument* (IFRS 9 *Financial Instruments* and IAS 39 *Financial instruments: Recognition and Measurement*) observed that a forecast transaction can only be designated as a hedged item if it is highly probable (paragraph 6.3.3 of IFRS) i.e. if it can be documented with sufficient specificity in terms of timing and magnitude.

26 October 2024 IASB meeting agenda paper 3A, paragraph 19

28 Amendments to the Basis for Conclusions on IFRS 9, paragraph BC6.667

| Proposals in the ED | Stakeholder feedback, including UKEB FCL | Final amendments |
|---|---|---|
| production facility as referenced in the contract for renewable electricity."<br><br>(Paragraph 6.10.5) | time intervals for making such estimates[29]. The UKEB FCL (paragraph A15) recommended that the IASB did not require entities to produce detailed forecasts of electricity transactions far into the future.<br><br>In addition, some respondents expressed a view that the proposed relief from the highly probable requirement for sellers should be extended to purchasers of nature-dependent electricity[30]. The IASB observed that when cash flows under a contract to either purchase or sell nature dependent electricity "can arise only when there is a hedged sale or purchase, such forecast transactions could be considered to be highly probable by nature."[31] | although the Basis for Conclusions to the amendments, confirms that entities are not required to make detailed estimates "for every minute of every day."[32]<br><br>The final amendments provide relief for a situation where cash flows arise on the hedging instrument only when a hedged transaction occurs, stating that "[i]f the cash flows of the contract referencing nature-dependent electricity designated as the hedging instrument are conditional on the occurrence of a forecast transaction that is designated as the hedged item…this forecast transaction is presumed to be highly probable…"<br><br>(Paragraph 6.10.2) |

29 October 2024 IASB meeting agenda paper 3A, paragraph 43
30 October 2024 IASB meeting agenda paper 3A, paragraph 63
31 October 2024 IASB meeting agenda paper 3A, paragraph 66
32 Amendments to the Basis for Conclusions on IFRS 9, paragraph BC6.673

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| Proposals in the ED | Stakeholder feedback, including UKEB FCL | Final amendments |
|---|---|---|
| **Hedge accounting** – measuring the hedged item | | |
| To account for the cash flow hedge, an entity should measure the hedged item and the hedging instrument using the same volume assumptions. However, all other assumptions and inputs for measuring the hedged item "shall reflect the nature and characteristics of the hedged item and shall not impute the features of the hedging instrument"[33].<br>(Paragraph 6.10.6) | Many respondents to the ED asked the IASB to provide further guidance relating to the measurement of the hedged item and accounting for the cash flow hedge[34]. However, the IASB took the view that the issues raised were not unique to contracts referencing nature-dependent electricity and/or that the existing guidance in IFRS 9 was sufficient[35]. | This part of the ED proposal has been incorporated in paragraph 6.10.1 (see above) which states that the variable amount of forecast electricity transactions - the hedged item - is 'aligned' with the variable amount of nature-dependent electricity expected to be delivered by a facility referenced in the hedging instrument. It follows that the hedged item and the hedging instrument are measured using the same volume assumptions[36]. |

33 B6.5.5 of IFRS 9 states that "a 'hypothetical derivative' cannot be used to include features in the value of the hedged item that only exist in the hedging instrument (but not in the hedged item)."
34 See the UKEB FCL paragraph A16 - A17 and October 2024 IASB meeting agenda paper 3A, paragraph 70 and 82
35 October 2024 IASB meeting agenda paper 3A, paragraphs 73 - 83
36 October 2024 IASB meeting agenda paper 3A, paragraphs 78

| **Hedge accounting: preliminary assessment of potential considerations for endorsement** |
|---|
| Along with most other respondents to the ED the UKEB welcomed the hedge accounting proposals. The UKEB FCL recommended the IASB produce guidance to support consistent application of the proposed amendments to hedge accounting which were considered to be technically complex (paragraph B15 above).<br><br>**Mitigating factors**<br><br>The IASB published amendments include a high-level Illustrative Example to support the application of the hedge accounting amendments.<br><br>The IASB has made it clear that the hedge accounting amendments and non-mandatory guidance are applicable only to contracts referencing nature-dependent electricity with specific characteristics. This will likely reduce the risk of wider repercussions for existing requirements within IFRS 9.<br><br>Initial outreach with UK stakeholders in the endorsement phase of this project suggests that the Illustrative Example will support the consistent application of the amendments. Our preliminary view is that large corporates are most likely to be affected by the amendments, and such entities would generally be expected to be able to deal with the technical complexity of the amendments (paragraphs B18 and B19 above).<br><br>Since the amendments were issued, no significant concerns have been drawn to our attention in relation to the hedge accounting amendments.<br><br>Secretariat preliminary assessment: this is unlikely to be a significant consideration for endorsement purposes. |

## Disclosures: summary of key changes between the ED and final amendments

| Proposals in the ED | Stakeholder feedback, including UKEB FCL | Final amendments |
|---|---|---|
| **Disclosures** – the effect of relevant contracts on "the amount, timing and uncertainty of the entity's future cash flow"[37] | | |
| Disclosure of contractual terms and conditions e.g. remaining contract duration, pricing, volume thresholds etc.<br><br>(Paragraph 42T(a)) | The UKEB FCL (paragraph 16) raised concerns about the significant reporting burden of the ED proposals, particularly for those renewable electricity contracts measured at fair value and subject to the disclosure requirements of IFRS 7 and IFRS 13 *Fair Value Measurement*. A few respondents to the ED also observed that the disclosure requirements of IFRS 15 *Revenue from Contracts with Customers* would appear to be sufficient for contracts for the sale and delivery of nature-dependent electricity[38].<br><br>The UKEB FCL (paragraph A20) proposed that additional disclosure requirements should be limited to | The IASB reduced the scope of the proposed disclosure requirements in the final amendments.<br><br>A purchaser under a contract referencing nature-dependent electricity which is outside the scope of IFRS 9 in accordance with the own-use amendments, is required to disclosure contractual terms and conditions that expose it to volume variability and risk of oversupply.<br><br>(Paragraph 30A(a))<br><br>For contracts referencing nature-dependent electricity which are measured at fair value and apply the hedge accounting amendments, the disclosures required by paragraph 23A of IFRS 7 must be disaggregated and disclosed separately from existing hedge accounting disclosures required by 23A of IFRS 7. |

37 Amendments to the Basis for Conclusions on IFRS 7, paragraph BC39M(b)
38 October 2024 IASB meeting agenda paper 3A, paragraph 20

| Proposals in the ED | Stakeholder feedback, including UKEB FCL | Final amendments |
|---|---|---|
| | those contracts within the scope of the amendments that meet the own-use requirements. | (Paragraph 30B) |
| Disclosure of information about future commitments under contracts for renewable electricity, either:<br>• fair value of contracts; or<br>• volume of renewable electricity to be sold or purchased over the remaining contract term.<br>(Paragraph 42T(b)) | A few respondents to the ED were of the view that the cost of estimating fair value would exceed the benefits of such information to a user of the accounts[39]. | A purchaser under a contract referencing nature-dependent electricity which is outside the scope of IFRS 9 in accordance with the own-use amendments, is required to disclosure information about future (unrecognised) commitments under contracts, including:<br>• aggregated expected cash flows from purchasing electricity; and<br>• qualitative information about how the entity assesses whether a contract might become onerous.<br>(Paragraph 30A(b)) |
| **Disclosures** – the effect of relevant contracts on "an entity's financial performance in the reporting period"[40] | | |
| Disclosure of information about the relative size of an entity's contracts | Disclosure of information about contracts for the sale and delivery of | The requirements at 42U of the ED have been removed. |

[39] October 2024 IASB meeting agenda paper 3A, paragraph 58
[40] Amendments to the Basis for Conclusions on IFRS 7, paragraph BC39M(a)

| Proposals in the ED | Stakeholder feedback, including UKEB FCL | Final amendments |
|---|---|---|
| for renewable electricity, specifically the proportion of electricity covered by the contracts to the total electricity sold or purchased in the reporting period.<br>(Paragraph 42U and 42V(a)) | nature dependent electricity is covered by the requirements of IFRS 15 (see above). | The requirements at 42V of the ED have been removed (see below). |
| Disclosure of information about the cost for purchasers under contracts for renewable electricity, specifically:<br>• the total net volume of electricity purchased;<br>• the average market price per unit of electricity; and<br>• if the product of the disclosed volume and price information is significantly different to the total cost actually incurred, a qualitative explanation for this.<br>(Paragraph 42V(b - d)) | The UKEB FCL (paragraph A22) raised particular concerns that the disclosure requirements of paragraphs 42V (b)-(d). Many respondents to the ED disagreed with the proposals at paragraph 42V of the ED[41] for various reasons, including the cost and complexity of preparing the information.<br>The IASB acknowledged that, as drafted, the requirements of 42V did not achieve their objective of requiring disclosure to demonstrate the effect of | The requirements at 42V of the ED have been removed.<br>The IASB has taken an alternative approach to meeting the disclosure objective in the final amendments. A purchaser under a contract referencing nature-dependent electricity, which is outside the scope of IFRS 9 in accordance with the own-use amendments is required to "disclose qualitative and quantitative information about on [sic] how it determined that it remained a net-purchaser under the contract for the reporting period."[42]<br>This includes information about the cash flows arising from purchases under contracts referencing |

41 October 2024 IASB meeting agenda paper 3A, paragraph 76
42 October 2024 IASB meeting agenda paper 3A, paragraph 83

UK Endorsement Board

| Proposals in the ED | Stakeholder feedback, including UKEB FCL | Final amendments |
|---|---|---|
| | certain contracts on an entity's financial performance.<br>The UKEB FCL (paragraph A21) argued for the provision of information relating to "judgements that result in 'own use' treatment". | nature-dependent electricity (including purchases of unused electricity), sales of unused electricity and purchases of electricity to offset these sales.<br>(Paragraph 30A(c)) |

**Disclosures: preliminary assessment of potential considerations for endorsement**

The UKEB Secretariat's view is that the disclosure amendments are much improved from the proposals in the ED, and address many of the concerns raised in the UKEB FCL. Required disclosures are generally limited to information about contracts for the purchase of nature-dependent electricity which have been accounted for in accordance with the own-use amendments and contracts accounted for at fair value applying the hedge accounting amendments.

It appears likely that some entities may need to exercise judgement to conclude whether the additional disclosures in paragraph 30A of IFRS 7 are required (i.e., if they meet the own-use exception under the amended requirements as opposed to under the existing IFRS 9 requirements of paragraph 2.4).

**Mitigating factors**

Own-use accounting is already an area where the exercise of judgement is required. Contracts referencing nature-dependent electricity are typically bespoke, complex, and may have a very long term so it is to be expected that preparers will need to carefully consider the substance of rights and obligations under a particular contract to determine the most appropriate accounting treatment. Overall, these disclosure requirements are expected to provide better information for users about contracts that are within scope of the amendments.

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| Since the amendments were issued, no significant concerns have been drawn to our attention in relation to the disclosure amendments.<br>Secretariat preliminary assessment: this is unlikely to be a significant consideration for endorsement purposes. |

## Effective date and transition: summary of key changes between the ED and final amendments

| Proposals in the ED | Stakeholder feedback, including UKEB FCL | Final amendments |
|---|---|---|
| **Effective date and transition** | | |
| Effective date to be determined. Early application permitted.<br>(Paragraph 7.1.12) | Most respondents to the ED (including the UKEB) were in favour of an effective date of 1 January 2026, to provide sufficient time for preparers to plan for application, and for endorsement in certain jurisdictions. | Effective date of 1 January 2026. Early application is permitted for reporting periods beginning after the issue of the amendments[43].<br>(Paragraph 7.1.15) |
| The ED proposed retrospective application of the own-use proposals, without requiring restatement of prior periods.<br>(Paragraph 7.2.50) | The UKEB FCL (paragraph A28 – A29) highlighted the difficulty of making the own-use assessment at inception of the contract and at each subsequent | The amendments require retrospective application of the own-use amendments using the facts and circumstances at the date of initial application. Entities are not required to restate prior periods.<br>(Paragraph 7.2.51) |

43 Amendments to the Basis for Conclusions on IFRS 9, paragraph BC7.104

| Proposals in the ED | Stakeholder feedback, including UKEB FCL | Final amendments |
|---|---|---|
| | reporting date, as required by the ED proposals. | |
| If an entity applies the own-use proposals in a reporting period that includes the date the amendments are issued, it recognises the difference in the carrying amount in opening retained earnings at the beginning of the relevant reporting period.<br>(Paragraph 7.2.51) | Stakeholders expressed concern that this proposed requirement risked misstating opening retained earnings and the result for the period[44]. | The proposal in the ED has been removed. |
| The ED proposed prospective application of the hedge accounting proposals. "An entity is permitted to change the designation of the hedged item in a cash flow hedging relationship that was designated | A few respondents to the ED observed that some entities might wish to continue fair valuing their contracts referencing nature-dependent electricity, even if they met the own-use exception under the amended requirements[45]. | If a contract referencing nature-dependent electricity qualifies for the own-exception under the amended requirements, the entity may nevertheless irrevocably designate the contract as measured at fair value through profit or loss at the date of initial application in accordance with paragraph 2.5 of IFRS 9. |

44 Paragraph A31 of the UKEB FCL and paragraph 20 of the October 2024 IASB meeting agenda paper 3C
45 October 2024 IASB meeting agenda paper 3C, paragraph 21

| Proposals in the ED | Stakeholder feedback, including UKEB FCL | Final amendments |
|---|---|---|
| before the date the amendments are first applied". (Paragraph 7.2.52) | In addition, some stakeholders observed that changing the designation of the hedged item while continuing the existing hedging relationship could be operationally complex and raise application questions[46]. | (Paragraph 7.2.52) The hedge accounting amendments should be applied prospectively. On the date of initial application, entities may discontinue an existing hedging relationship and designate a new hedging relationship applying the amendments. (Paragraph 7.2.53) |

| Effective date and transition: preliminary assessment of potential considerations for endorsement |
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| Since the amendments were issued, no significant concerns have been drawn to our attention in relation to the effective date and transition requirements of the amendments. Secretariat preliminary assessment: this is unlikely to be a significant consideration for endorsement purposes. |

46 October 2024 IASB meeting agenda paper 3C, paragraph 28