

# Feedback Statement

## Contracts for Renewable Electricity

### Proposed Amendments to IFRS9 and IFRS 7

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**Final Comment Letter (FCL)**

**August 2024**

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations.

The comment letter to which this feedback statement relates forms part of those influencing activities and is intended to contribute to the IFRS Foundation's due process.

The views expressed by the UKEB in its comment 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.

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# Purpose of this Feedback Statement

This feedback statement presents the views of UK stakeholders on the UKEB's Draft Comment Letter on the IASB's Exposure Draft (ED) [\*Contracts for Renewable Electricity: Proposed amendments to IFRS 9 and IFRS 7\*](#) and explains how the UKEB's Final Comment Letter addressed those views.



# The IASB's Exposure Draft

The Exposure Draft (ED) contains proposed amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*. The key proposals in the ED include:

- **'Own use'** - clarification of factors an entity is required to consider when applying paragraph 2.4 of IFRS 9 to contracts within the scope of the ED
- **Hedge accounting** – permitting the use of a variable nominal amount of forecast electricity transactions as the hedged item in a designated cash flow hedge, using an instrument within the scope of the proposals as the hedging instrument
- **Disclosures** - additional disclosure requirements for contracts within the scope of the proposed amendments
- **Transition** – modified retrospective transition for the 'own use' amendments and prospective application of new hedging relationships designated on or after the date the amendments are first applied.

# Outreach approach

The UKEB's outreach activities took place between January 2024 and July 2024 and were conducted to develop the UKEB Comment Letter on the ED.

Outreach activities included discussions with several specialists in the field and with the following UKEB Advisory and Working Groups:

- Investor Advisory Group
- Preparer Advisory Group
- Rate-regulated Activities Technical Advisory Group
- Accounting Firms and Institutes Advisory Group
- Financial Instruments Working Group

Public consultation on the UKEB's Draft Comment Letter (DCL) was conducted for 44 days between 5 June 2024 and 19 July 2024.

All comments and views were considered in reaching the UKEB's final assessment of the proposed amendments.

The UKEB promoted awareness of the DCL and encouraged stakeholders to respond through the UKEB website, the UKEB subscriber News alerts and by sharing the DCL with our outreach participants.

3 written responses to the DCL were received from accounting firms.

Stakeholder feedback on the draft views set out in the DCL, including UKEB Advisory Group and informal feedback received during the comment period, is summarised on the following pages.

Stakeholder type	Organisations represented
Preparers	2
Academics	1
Accounting firms and institutes	3
Regulators	1
UKEB Advisory Groups*	50
<b>Total</b>	<b>57</b>

\* Five UKEB Advisory Groups with a total of 50 members

# UKEB and stakeholder views

## Own use

IASB proposals	UKEB draft position	Further stakeholder views	UKEB final position
<ul style="list-style-type: none"> <li>• Clarifications to application of 'own use' requirements of paragraph 2.4 of IFRS 9 <i>Financial Instruments</i> for certain contracts for the delivery of renewable electricity, where the source is nature dependent, and where the purchaser is exposed to substantially all the volume risk through 'pay as produced' features.</li> <li>• Added guidance on the level of detail required for forecasting expected usage requirements far into the future, and on the circumstances where past and expected sales of unused electricity are in accordance with expected purchase or usage requirements.</li> </ul>	<ul style="list-style-type: none"> <li>• Expressed opposition to the proposed amendments on this topic and recommended that the existing 'own use' requirements of IFRS 9 were left unchanged.</li> <li>• Recommended that if the IASB decided to finalise the proposed amendments relating to 'own-use', enhancements and clarifications to the scope of the amendments would be required.</li> </ul>	<ul style="list-style-type: none"> <li>• A large majority of stakeholders expressed support for the direction taken by the IASB and disagreed with the UKEB position.</li> <li>• Some preparers highlighted that fair value accounting could be a barrier to them entering into such contracts.</li> <li>• Common themes raised in feedback included potentially significant cost and complexity of fair valuing these instruments; concern at significant income statement volatility from derivative accounting; potential impact on smaller companies that have entered into these contracts.</li> <li>• Some stakeholders raised concerns that the scope of the IASB proposals may not permit 'own use' treatment for some common contracts in the UK.</li> </ul>	<ul style="list-style-type: none"> <li>• Highlighted the risks of the proposed departure from principle-based accounting and the absence of a clear technical argument in favour of applying 'own use' treatment to the defined contracts.</li> <li>• However, recognised the strong stakeholder feedback in support of a pragmatic solution.</li> <li>• Noted concern at practical and operational challenges in obtaining reliable valuations for these complex, long-term and often bespoke contracts, if an exception to existing rules were not permitted.</li> <li>• Noted that 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.</li> </ul>

# UKEB and stakeholder views

## Hedge accounting

IASB proposals	UKEB draft position	Further stakeholder views	UKEB final position
<ul style="list-style-type: none"> <li>Relaxation of the cash flow hedge accounting rules for contracts within the scope of the amendments, to allow a variable nominal volume of forecast electricity transactions to be designated as the hedged item.</li> <li>A specific relaxation of the 'highly probable' requirements aimed at sellers of electricity.</li> <li>Additional guidance on volume assumptions to be used in measuring the hedged item and hedging instrument.</li> </ul>	<ul style="list-style-type: none"> <li>Broadly supportive of the proposed amendments to the hedge accounting requirements for contracts within the scope of the amendments.</li> <li>Recommended the IASB develop illustrative examples to show users how the proposals are intended to apply in relation to variable volumes of sales and purchases of renewable electricity.</li> <li>Encouraged the IASB to consider extending the amendments to other cash flow hedge relationships as part of the IASB's Post-implementation Review of IFRS 9.</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholders were broadly supportive of the IASB proposals, and the position taken in the UKEB Draft Comment Letter.</li> <li>Stakeholders highlighted several areas where additional clarification or guidance would be helpful.</li> </ul>	<ul style="list-style-type: none"> <li>Consistent with draft position. Highlighted the importance of development of application guidance as well as illustrative examples.</li> <li>Identified several specific areas relating to volume forecasts, measuring hedge ineffectiveness, and reclassification of amounts from the cash flow hedge reserve where further clarification of the proposed requirements is needed.</li> </ul>



# UKEB and stakeholder views

## Disclosure

IASB proposals	UKEB draft position	Further stakeholder views	UKEB final position
<ul style="list-style-type: none"> <li>• Disclosure of terms and conditions of the contracts including duration, type of pricing, minimum and maximum volume and renewable energy certificates.</li> <li>• For contracts for renewable electricity not measured at fair value through profit or loss, disclosure of fair value plus IFRS 13 disclosures, or volume of electricity expected under contract in time bands.</li> <li>• Sellers to disclose the proportion of renewable electricity covered by these contracts relative to total electricity sold.</li> <li>• Purchasers to disclose the proportion of electricity purchased under renewable electricity contracts within scope of the amendments, and explain major variance from actual costs compared to average market price for those markets.</li> </ul>	<ul style="list-style-type: none"> <li>• Supported the proposed disclosure requirements for those contracts for renewable electricity within the scope of the ED that meet the 'own-use' requirements.</li> </ul>	<ul style="list-style-type: none"> <li>• Stakeholders, including investors, questioned whether proposals could lead to the requirement to disclose commercially sensitive information.</li> <li>• Stakeholders expressed concerns that disclosure proposals were excessive, and would require the disclosure of a significant volume of information better suited to sustainability reporting.</li> <li>• Specific concerns raised about disclosure burden for entities with a number of relevant contracts, e.g. energy companies that may be purchasers and sellers under such contracts.</li> <li>• A number of stakeholders felt that while some disclosures were warranted for 'own use' contracts, requiring this information for all contracts would add significantly to existing IFRS 7/IFRS 13 disclosure requirements for contracts measured at fair value.</li> <li>• Stakeholders noted that disclosure of judgements related to 'own use' treatment would be helpful to users.</li> </ul>	<ul style="list-style-type: none"> <li>• Recommended that the disclosure proposals should apply only to those contracts which meet the 'own use' requirements.</li> <li>• Recommended that the IASB drop the disclosure proposals in paragraphs 42V (b)-(d).</li> </ul>

# UKEB and stakeholder views

## Effective date and transition

IASB proposals	UKEB draft position	Further stakeholder views	UKEB final position
<ul style="list-style-type: none"><li>• The ED asked stakeholders whether an effective date of periods beginning on or after 1 January 2025 would be appropriate.</li><li>• Retrospective transition for the 'own use' requirements, subject to a modified approach for comparatives.</li><li>• Prospective application of the new hedge accounting requirements.</li></ul>	<ul style="list-style-type: none"><li>• The UKEB recommended that the proposals be effective for accounting periods beginning on or after 1 January 2026, with early adoption permitted.</li></ul>	<ul style="list-style-type: none"><li>• Stakeholders expressed clear support for the UK recommendation on the effective date. Highlighted that time would be needed to collect the new information required to meet the proposed disclosure requirements.</li></ul>	<ul style="list-style-type: none"><li>• Consistent with draft position.</li></ul>

# Disclaimer

This Feedback Statement has been produced in order to set out the UKEB's response to stakeholder comments received on the UKEB's Draft Comment Letter on the IASB's Exposure Draft *Contracts for Renewable Electricity: Proposed amendments to IFRS 9 and IFRS 7*.

The views expressed in this Feedback Statement are those of the UK Endorsement Board at the point of publication.

Any sentiment or opinion expressed within this Feedback Statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.



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