UKEB
UK Endorsement Board

Invitation to Comment

Call for comments on the Exposure Draft *Contracts for Renewable Electricity: Proposed Amendments to IFRS 9 and IFRS 7*

Deadline for completion of this Invitation to Comment:
Midday, Friday, 19 July 2024
Please submit to: UKEndorsementBoard@endorsement-board.uk

Introduction

The objective of this Invitation to Comment is to obtain input from stakeholders on the Exposure Draft (ED) *Contracts for Renewable Electricity: Proposed Amendments to IFRS 9 and IFRS 7*, published by the International Accounting Standards Board (IASB) on 8 May 2024. The IASB's comment period ends on 7 August 2024.

UK endorsement and adoption process

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 (Foundation) on the development of new standards, amendments and interpretations. This letter is intended to contribute to the IASB's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

Who should respond to this Invitation to Comment?

Stakeholders with an interest in the quality of accounts prepared in accordance with international accounting standards.

How to respond to this Invitation to Comment

Please download this document, answer any questions on which you would like to provide views, and return it together with the 'Your Details' form to UKEndorsementBoard@endorsement-board.uk by midday on [Thursday, 4 July 2024].

Brief responses providing views on individual questions are welcome, as well as comprehensive responses to all questions.

Privacy and other policies

The data collected through responses to this document will be stored and processed by the UKEB. By submitting this document, you consent to the UKEB processing your data for the purposes of influencing the development of and adopting IFRS for use in the UK. For further information, please see our Privacy Statements and Notices and other Policies (e.g. Consultation Responses Policy and Data Protection Policy)[1].

The UKEB's policy is to publish on its website all responses to formal consultations issued by the UKEB unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. If you do not wish your signature to be published, please provide the UKEB with an unsigned version of your submission. The UKEB prefers to publish responses that do not include a personal signature. Other than the name of the organisation/individual responding, information contained in the "Your Details" document will not be published. The UKEB does not edit personal information (such as telephone numbers, postal or e-mail addresses) from any other response document submitted; therefore, only information that you wish to be published should be submitted in such responses.

1 These policies can be accessed from the footer in the UKEB website here: https://www.endorsement-board.uk

UK Endorsement Board

Questions

‘Own-use’ requirements

1. The UKEB’s draft comment letter (DCL) does not support the proposed amendments to ‘own use’ requirements and recommends the IASB leaves the IFRS 9 ‘own use’ requirements unchanged. Do you agree with this recommendation? Please explain why or why not.

2. If you support the IASB’s position what changes would you make to the ‘own use’ proposals?

Yes	☐	No	☒

We urge the UKEB to rethink its position not to support the proposed amendments. We agree with the proposed amendments and believe the own-use exemption should be expanded to apply to contracts transferring substantially all volume risk to the purchaser. It is our view that that the IASB should in fact consider widening the scope of the proposed exemption instead (see below for further detail).

We strongly disagree with the UKEB’s view stated in paragraph 8 of the draft comment letter saying that“…*for those contracts not meeting the existing ‘own-use’ requirements in IFRS 9, fair value accounting would better reflect the risks to which the entity is exposed.”* We note that the whole contract would be measured at fair value through profit and loss, not just the portion of the contract which relates to the electricity that may eventually be sold, which under the proposed amendments will always be less than the portion that is used by the purchaser. In our view, without the amendments, the difference in accounting treatment between contracts that meet the existing own-use exemption and those that do not, purely because some proportion of the electricity is sold, would impair comparability.

Paragraph 9 of the draft comment letter points to a possible anomaly between so called “base-load” contracts and the contracts in scope of the amendment, if the amendment was made. In our view there is a distinction to be made between these base-load contracts and therefore the difference in accounting can be justified. When an entity has entered into a base-load contract sales of excess electricity arises because of the different usage patterns by the purchaser compared to contracted delivery volumes. For contracts in scope of the amendments, the excess sales arise because the volume of electricity purchased cannot be controlled by the purchasers (or the seller for that matter) and hence may at times exceed the purchaser’s requirements.

This amendment addresses only a narrow set of contracts, and we believe there could be merit in the IASB considering as a separate project extending the own use exemption to all situations when the purchaser sells electricity when it is not needed, subject to restrictions applicable to the proportion of onward sales and the own use of the electricity purchased.

In addition, it is not clear from the proposed amendments whether the exemption can be applied when the generated electricity is not directly delivered from the producer

(seller) to the purchaser, but instead is transmitted through a grid structure. This involves separate contracts between the purchaser and producer on the one hand and the purchaser and the grid intermediaries on the other (with the former typically being longer than the latter). In our view these types of arrangements should also be permitted to apply the own-use exemption.

Hedge accounting requirements

3. The UKEB's DCL supports the proposed amendments to the hedge accounting requirements for contracts within the scope of the amendments, but recommends the IASB develop illustrative examples to show users how the proposals are intended to apply. Do you agree with this position? Please explain why or why not.

Yes	☒	No	☐

We support the proposed amendments to the hedge accounting requirements. We also concur with the UKEB's recommendation to produce illustrative examples that demonstrate the application of the new requirements. In our view, most helpful would be illustrative examples that exhibit the limits of the reliefs both from the purchaser's and seller's perspective.

We also support the UKEB's request for the IASB to consider extending the proposed amendments to other contracts subject to volume risk, when hedge accounting requirements would otherwise not be met. We concur that the planned Post-implementation Review of IFRS 9's hedge accounting requirements is a good opportunity for the IASB to explore this further.

We share the observations identified in paragraph A18 of the draft comment letter that there is a lack of clarity around the required degree of certainty over the total future renewable electricity sales. However, we do not share the UKEB's view that the future sales need to be highly probable, in fact it would seem unlikely for that condition to be met, given the volume risk. In our view future sales should be *expected* to occur instead.

We also note that the proposed amendments provide hedge accounting reliefs in IFRS 9, but not in IAS 39 *Financial Instruments: Recognition and Measurement.* In our view the hedge accounting requirements in IAS 39 should provide similar reliefs.

Disclosures

4. The UKEB's DCL supports the proposed amendments in relation to disclosures, irrespective of whether the UKEB's recommendation not to change the own use requirements is adopted by the IASB. Do you agree with this position? Please explain why or why not.

Yes	☐	No	☒

In our view the proposed disclosure requirements go beyond the information needed to assess the impact of such contracts on the financial position, performance and cash flows of an entity, in particular the disclosures required under proposed paragraphs 42U and 42V. Disclosures of this nature should not be included in the notes to the financial statements, but may be considered in management reports instead, if relevant for users.

5. Do you have any concerns about the details of the proposed disclosure requirements set out in the proposals? Please explain the nature of these concerns.

Yes	☒	No	☐
In our view an entity should confirm whether it has either applied the proposed own-use exemption or the reliefs in relation to hedge accounting, as this is relevant information for an understanding of the entity's accounting policies. Information about financial commitments made under these contracts could be useful information too, however, given that the same disclosures are not explicitly required for other contracts the understandability and comparability of the information could be impaired.			

6. The UKEB's DCL supports the proposal not to grant any relief from disclosure requirements for subsidiaries without public accountability. Do you agree with this position?

Yes	☐	No	☒
We do not support that the proposed disclosures should be made in a subsidiary's financial statements. However, consistent with our response to question 5 above, disclosures in relation to the accounting policies and the financial commitments could be relevant for the subsidiary's own financial statements.			

Other

7. The UKEB's DCL notes that an effective date of 1 January 2025 may present difficulties for some preparers, and recommends that the IASB consider an effective date of 1 January 2026, with early adoption permitted. Do you agree with this recommendation? Please explain why or why not.

Yes	☒	No	☐

The amendments provide reliefs from existing accounting requirements and therefore have some reservations as to whether the UKEB's concern is a legitimate one. However, on the basis the UKEB is aware some entities will find it challenging to implement the amendments in 2025, we agree to deferral by a further year.

We suggest that the IASB also consider whether the amendments should be applied prospectively, as a pragmatic solution for cost benefit reasons.

8. What benefits would these proposals provide you with?

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9. What costs would be associated with these proposals? Please share any qualitative or quantitative information on the cost of implementing the proposals you may be aware of.

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Thank you for completing this Invitation to Comment

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