27 February 2025
Agenda Paper 5

UK Endorsement Board

Amendments to IFRS 9 and IFRS 7 – Contracts Referencing Nature-dependent Electricity: Draft Endorsement Criteria Assessment

Executive Summary

Project Stage							
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

The purpose of this paper is to:

- Obtain Board feedback on the Draft Endorsement Criteria Assessment (DECA), and related Invitation to Comment (ITC) for the *Amendments to IFRS 9 and IFRS 7 – Contracts Referencing Nature-dependent Electricity* (the Amendments).
- Request the Board's approval to publish the DECA and ITC on the UKEB website for stakeholder consultation for a 90 day comment period.

Summary of the Issue

The purpose of the DECA is to assess whether the Amendments meet the statutory criteria for adoption set out in SI 2019/685[1] and to discharge the UKEB's statutory duty to consult those with an interest in the quality and availability of accounts, including users and preparers. The DECA includes:

- a description of the UK statutory requirements for adoption of new and amended international accounting standards.
- a description of the Amendments; and

[1] The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685 (SI 2019/685)

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• an assessment of whether the Amendments meet the statutory criteria for adoption. An entity shall apply the Amendments for annual reporting periods beginning on or after 1 January 2026. Earlier application is permitted.
Questions and decision for the Board
1. Does the Board have any comments on the tentative conclusion in paragraph 2.5 of the DECA that the Amendments are not likely to lead to a significant change in accounting practice? 2. Does the Board have any comments on the DECA (Appendix A) or the Invitation to Comment (ITC) (Appendix B)? 3. Does the Board agree that, subject to any amendments or additions required by the Board, the DECA and ITC can be published for public consultation?
Recommendation
Subject to any amendments or additions required by the Board, the Secretariat recommends that the Board approves the DECA and ITC for public consultation.
Appendices
Appendix A [Draft] Endorsement Criteria Assessment of *Amendments to IFRS 9 and IFRS 7 - Contracts Referencing Nature-dependent Electricity.* Appendix B DECA – Invitation to comment.

Amendments to IFRS 9 and IFRS 7 – Contracts Referencing Nature-dependent Electricity
The key changes and requirements introduced by the Amendments[2] are summarised below. • 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. • The Amendments extend the 'own-use' exception included in paragraph 2.4 of IFRS 9 to contracts to purchase nature-dependent electricity which meet certain conditions. • The Amendments permit the application of 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. • The Amendments require entities to disclose information about their contracts referencing nature-dependent electricity.

2 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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Amendments to IFRS 9 and IFRS 7 – Contracts Referencing Nature-dependent Electricity: Draft Endorsement Criteria Assessment

Background

1. In December 2024 the IASB published final Amendments to IFRS 9 and IFRS 7, introducing new requirements and guidance for contracts referencing nature-dependent electricity.

2. The publication of these Amendments concluded the IASB's narrow-scope standard setting project on Power Purchase Agreements (PPAs). The purpose of the IASB project was to develop a timely solution for application challenges reported by entities in accounting for contracts referencing nature-dependent electricity, while minimising the risk of unintended consequences for the application of IFRS 9's requirements to other contracts, transactions and items.

3. The Amendments have been developed by the IASB to enable a more faithful representation of contracts referencing nature-dependent electricity in the accounts and to require entities to provide complementary disclosures to help users understand, for example, the potential effect of such contracts on future cashflows.

DECA

4. The DECA setting out the proposed draft assessment of the Amendments against the statutory criteria is set out at Appendix A to this paper.

5. An Invitation to Comment (ITC) is included at Appendix B. The objective of this Invitation to Comment is to obtain input from stakeholders on the endorsement and adoption of the Amendments.

Do the amendments lead to a significant change in accounting practice

6. The DECA tentatively concludes in paragraphs 2.3 to 2.5 that the Amendments are not likely to lead to a significant change in accounting practice.

7. This tentative conclusion is informed in part by the relatively small number of listed entities currently disclosing information about PPAs in their financial statements (our research indicated that while more than 60 listed entities referred to PPAs in the front half of their annual reports, only a minority of these provided disclosures about PPAs they hold in the notes to their financial statements).

8. The Amendments are narrow in scope but could have an impact on the accounting for contracts referencing nature-dependent electricity across a wide variety of businesses as the economy-wide use of renewable electricity increases.

9. The renewable energy sector is also evolving and there are expected to be significant developments in the near to medium future as economies aim to decarbonise. 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, advancements in battery storage for example could significantly alter the contract terms.

10. It is possible that technological change may reduce the need for these Amendments over time. For example, there may no longer be any need for hedge accounting Amendments that address the needs of entities holding virtual PPAs. There may therefore be merit in reviewing the ongoing need for the Amendments at a future point.

Question for the Board
1. Does the Board have any comments on the tentative conclusion in paragraph 2.5 of the DECA that the Amendments are not likely to lead to a significant change in accounting practice?

Stakeholder outreach

11. Feedback from stakeholder outreach to December 2024 was summarised in the Project Initiation Plan[3].

12. Subsequently, the Amendments have been discussed at the Financial Instruments Working Group in January 2025 and with various other subject matter experts. Stakeholders did not express any significant concerns and generally felt that the Amendments would improve the financial reporting of contracts in scope.

Consequential amendments to IFRS 19

13. Although not referenced in the title, the Amendments also include consequential amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* (IFRS 19). The effective date for IFRS 19 is annual periods commencing on or after 1 January 2027.

14. The UKEB has not yet formally commenced endorsement work on IFRS 19. The endorsement of these Amendments in their entirety, including the consequential amendments to IFRS 19, would mean endorsing an amendment to a standard which is not yet a UK-adopted international accounting standard.

15. Therefore, the consequential amendments to IFRS 19 contained within the Amendments will not be considered for adoption as part of the endorsement

[3] Project Initiation Plan, paragraphs A19 – A21.

assessment of these Amendments. Instead, they will be considered for adoption as part of the IFRS 19 endorsement assessment.

16. This approach is set out in paragraphs 7 - 8 of the DECA.

Questions for the Board
2. Does the Board have any comments on the DECA (Appendix A) or the Invitation to Comment (ITC) (Appendix B)? 3. Does the Board agree that, subject to any amendments or additions required by the Board, the DECA and ITC can be published for public consultation?

Next steps and timeline

17. Subject to amendments or additions to the DECA required by the Board, the proposed timeline is set out below. The Board will be alerted if there are any significant changes.

18. In accordance with the Project Initiation Plan (PIP), the proposed timeline aims for the Board to consider whether to adopt the Amendments in July 2025.

Date	**Milestones**
12 December 2024	Draft Project Initiation Plan for Board approval.
30 January 2025	Technical papers for discussion at Board meeting.
27 February 2025	DECA for Board approval.
Estimated DECA consultation period (90 days): 4 March – 2 June 2025	
26 June 2025	Board review of feedback received on the DECA.
15 July 2025	Consideration of Adoption Package. Board members provide a tentative vote.
Second half of July	Voting form sent to Board members. Publication of voting outcome and Adoption Package on the UKEB website.
25 September 2025	Due Process Compliance Statement for noting.

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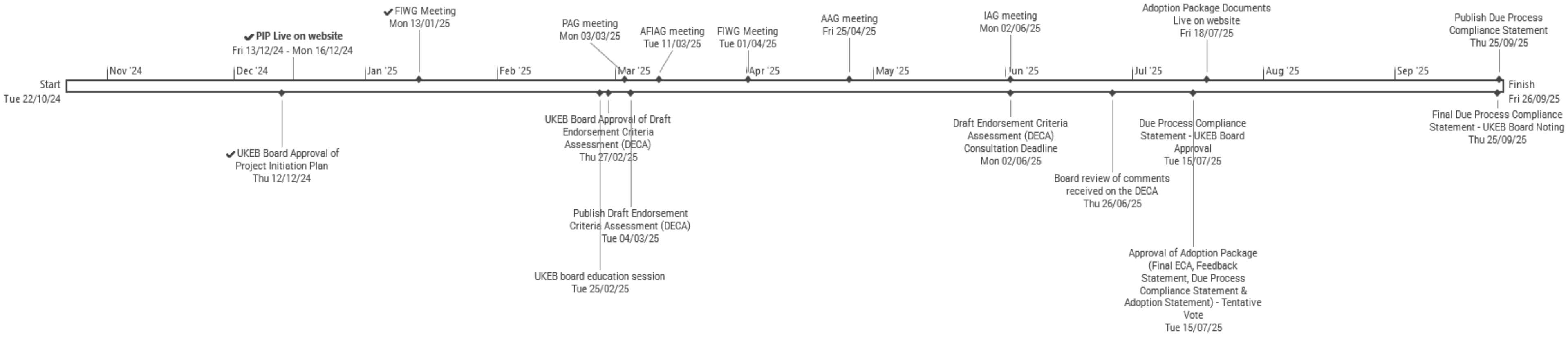
Endorsement and adoption timeline



UKEB
UK Endorsement Board

Draft Endorsement Criteria Assessment

Amendments to IFRS 9 and IFRS 7 - Contracts Referencing Nature-dependent Electricity

[March 2025]

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Introduction

Purpose

1. The purpose of this Draft Endorsement Criteria Assessment (DECA) is to determine whether the *Amendments to IFRS 9 and IFRS 7 – Contracts Referencing Nature-dependent Electricity* (the Amendments) issued by the International Accounting Standards Board (IASB) in December 2024 meet the UK's statutory requirements for adoption as set out in Regulation 7 of Statutory Instrument 2019/685[1] (SI 2019/685).

2. The Amendments have an effective date of 1 January 2026 with earlier application permitted.

3. The UKEB actively influenced the development of the Amendments. This included submitting a Final Comment Letter on 6 August 2024 in response to the IASB's Exposure Draft *Contracts for Renewable Electricity* .

Background to the Amendments

4. Section 2 in this DECA provides a brief description of the Amendments.

Scope of the adoption assessment

5. The Amendments make changes to the mandatory parts of IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*. These changes to the mandatory parts of the standard form part of the UKEB's adoption assessment.

6. As UK-adopted international accounting standards comprise only the mandatory[2] sections of standards, the Amendments to the Illustrative Examples and Basis for Conclusions of IFRS 9 and IFRS 7 are not adopted by the Board and are not considered in this DECA.

7. IFRS 19 *Subsidiaries without Public Accountability: Disclosures* (IFRS 19) will be considered for adoption at a future date. The consequential Amendments to IFRS 19 included in the Amendments will be considered as part of the UKEB's

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1 The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685 (SI 2019/685)

2 Mandatory pronouncements are IFRS Standards, IAS Standards, Interpretations and mandatory application guidance. Non-mandatory guidance includes basis for conclusions, dissenting opinions, implementation guidance and illustrative examples, together with the IFRS practice statements. This categorisation is set out in the introduction to the IASB yearly bound volumes.

assessment work for the adoption of IFRS 19. Accordingly, the Amendments to IFRS 19, included as a separate element in the Amendments, have not been considered for adoption by the UKEB in this DECA.

8. If IFRS 19 (including the Amendments to IFRS 19 within the *Amendments to IFRS 9 and IFRS 7 – Contracts Referencing Nature-dependent Electricity*) is endorsed for use in the UK, the effective date for those disclosures will be set out in the relevant adoption statement.

Structure of the assessment

9. The UKEB's analysis is presented in the following sections:

   a) **Section 1:** describes UK statutory requirements for adoption of new or amended international accounting standards and states the UKEB's adoption decision; and

   b) **Section 2:** discusses how the Amendments meet the criteria in Section 1.

Do the Amendments lead to a significant change in accounting practice?

10. A standard adopted by the UKEB under Regulation 6 of SI 2019/685 that it considers is likely to lead to a 'significant change in accounting practice', is subject to the requirements in paragraph 3 of Regulation 11 of SI 2019/685 that the UKEB:

> "(a) carry out a review of the impact of the adoption of the standard; and
>
> (b) publish a report setting out the conclusions of the review no later than 5 years after the date on which the standard takes effect (being the first day of the first financial year in respect of which it must be used)".

11. **Section 2** of the DECA discusses whether the Amendments lead to a significant change in accounting practice.

Section 1: UK statutory requirements for adoption

UK statutory requirements

1.1 Paragraph 1 of Regulation 7 of SI 2019/685 requires that an international accounting standard only be adopted if:

> "(a) the standard[3] is not contrary to either of the following principles—
>
> (i) an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;
>
> (ii) consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking;
>
> (b) the use of the standard is likely to be conducive to the long term public good in the United Kingdom; and
>
> (c) the standard meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management."

1.2 This DECA assesses the criteria above in the following order:

a) Whether the Amendments meet the criteria of relevance, reliability, understandability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management (Regulation 7(1)(c)).

b) Whether the Amendments are not contrary to the principle that an entity's accounts must give a true and fair view (Regulation 7(1)(a)).

c) Whether use of the Amendments is likely to be conducive to the long term public good in the UK (Regulation 7(1)(b)). Regulation 7(2) of SI 2019/685 includes specific areas to consider for this assessment. They are:

i. whether the Amendments are likely to improve the quality of financial reporting;

3 The term "standard" includes standards (International Accounting Standards (IAS), International Financial Reporting Standards (IFRS)), Amendments to those standards and related Interpretations (Standing Interpretations Committee / International Financial Reporting Interpretations Committee interpretations) issued or adopted by the IASB. This DECA relates to Amendments to those standards.

ii. the costs and benefits that are likely to result from the use of the Amendments; and

iii. whether the Amendments are likely to have an adverse effect on the economy of the UK, including on economic growth.

Relevance, Reliability, Understandability and Comparability[4]

1.3 Information is **relevant** if it is capable of making a difference in the decision-making of users[5] or in their assessment of the stewardship of management. The information may aid predictions of the future, confirm or change evaluations of the past, or both.

1.4 Financial information is **reliable** if, within the bounds of materiality, it:

a) can be depended on by users to represent faithfully what it either purports to represent or could reasonably be expected to represent;

b) is complete; and

c) is free from material error and bias.

1.5 Financial information should be readily **understandable** by users with a reasonable knowledge of business, economic activities and accounting, and a willingness to study the information with reasonable diligence.

1.6 Information is **comparable** if it enables users to identify and understand similarities in, and differences among, items. Information about an entity should be comparable with similar information about other entities and with similar information about the same entity for another period.

1.7 In conducting the overall assessment against the technical accounting criteria, the UKEB is required to adopt an absolute, rather than a relative, approach. This means that this assessment is an absolute one against the criteria (do the Amendments provide information that is understandable, relevant, reliable and comparable?) rather than a relative one (do the Amendments provide information that is more understandable, relevant, reliable and comparable than current, or any other, accounting?). When an assessment of any individual aspect or requirement of the Amendments uses comparative language (e.g. 'enhances comparability'), the objective is to explain that any individual aspect or requirement of the Amendments has the potential to "enhance" one or more of the qualitative characteristics. Consideration of whether the Amendments are likely to improve

4 These descriptions are based on the qualitative characteristics of financial statements in the *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB in April 2001. These qualitative characteristics became part of the criteria for endorsement and adoption of IFRS in the EU's IAS Regulation (1606/2002), and, subsequently, in SI 2019/685.

5 In the *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB, the users of financial reports include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. While the UK has not adopted this *Framework*, in this document 'users' is taken to have a similar meaning.

the quality of financial reporting is separate from this assessment and is included within the UK long term public good assessment in Section 2.

True and fair view assessment

1.8 As noted above, the first adoption criterion set out in Regulation 7(1) of SI 2019/685 requires that an international accounting standard can be adopted only if:

> "[….] the standard is not contrary to either of the following principles—
>
> a) an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;
>
> b) consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking; [….]"

1.9 For the sake of brevity, the UKEB refers to the assessment against this endorsement criterion as 'the true and fair view assessment' and to the principles set out in Regulation 7(1)(a) as the 'true and fair principle'. However, these abbreviated expressions do not imply that the assessment has considered anything other than the full terms of the endorsement criterion set out above.

1.10 The duty of the UKEB under Regulation 7(1)(a) is to determine generically, before a standard is applied to a set of accounts, whether that standard is 'not contrary' to the true and fair principle. In other words, it is an ex-ante assessment. The UKEB has therefore considered whether the Amendments contain any requirement that would prevent accounts prepared using the Amendments from giving a true and fair view.

1.11 The approach is to determine whether the Amendments are not contrary to the true and fair principle in respect of any of the specific items identified in Regulation 7(1)(a) (namely, the assets, liabilities, financial position and profit or loss) in the context of the preparation of the accounts as a whole. A holistic approach has been taken to this assessment, considering the impact of the Amendments taken as a whole, including their interaction with other UK-adopted international accounting standards.

1.12 For the purposes of the assessment, the UKEB considers the requirement in IAS 1 *Presentation of Financial Statements* for financial statements to 'present fairly the financial position, financial performance and cash flows of an entity'[6] to be equivalent to the Companies Act 2006 requirement for accounts to give a true and fair view.

6 Paragraph 15 of IAS 1 *Presentation of Financial Statements*.

1.13 This assessment is separate from the duty of directors under section 393(1) of the Companies Act 2006, which requires directors to be satisfied that a specific set of accounts gives a true and fair view of an undertaking's or group's assets, liabilities, financial position and profit or loss.

[Draft] Adoption decision

1.14 **Section 2** of this DECA discusses how the Amendments meet the statutory endorsement criteria set out in this **Section 1**.

1.15 On the basis of these assessments, and subject to any stakeholder feedback, the UKEB [tentatively] concludes that the Amendments meet the statutory endorsement criteria. The UKEB is therefore of the view that it will adopt the Amendments for use in the UK.

Section 2: Description and assessment of the Amendments

Description

Amendments to IFRS 9 and IFRS 7	
Title and issue date of final Amendments	*Amendments to IFRS 9 and IFRS 7 – Contracts Referencing Nature-dependent Electricity* was issued on 18 December 2024.
Origin	In June 2023, the IFRS Interpretations Committee discussed a submission regarding the application of paragraph 2.4[7] of IFRS 9 (the 'own-use' exception) to certain contracts for the procurement of renewable energy, commonly known as physical[8] power purchase agreements (PPAs). As a result, a recommendation was made to the IASB to develop a narrow-scope standard setting solution to address the issue. The IFRS Interpretations Committee received feedback that application questions also arise when accounting for virtual[9] PPAs which stakeholders considered were "entered into for the same purposes and economically provide the same outcomes"[10] as physical PPAs. The IASB noted that resolving these issues for virtual PPAs is more complex, because they are derivative contracts under which there is no delivery of nature-dependent electricity. They considered that "hedge accounting might be a potential solution to better reflect the purpose and objectives"[11] of virtual PPAs. Consequently, the IASB added a narrow-scope standard setting project to the workplan to explore the application of: a) the own-use exception in IFRS 9 to physical PPAs; and

7 Paragraph 2.4 states that IFRS 9 "shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements."

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

9 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.

10 July 2023 IASB meeting staff paper 12, paragraphs 16 - 18

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

	b) the IFRS 9 hedge accounting requirements, designating a virtual PPA as the hedging instrument. The IASB's proposals were set out in an Exposure Draft that was 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 Exposure Draft to the IASB on 6 August 2024. The IASB published the final Amendments to IFRS 9 and IFRS 7 on 18 December 2024.
Transition requirements	An entity shall apply the Amendments for annual reporting periods beginning on or after 1 January 2026. Early application is permitted. The own-use Amendments must be applied retrospectively based on the facts and circumstances in existence at the date of initial application. Comparative information is not required and may only be presented where possible without the use of hindsight. The hedge accounting Amendments must be applied prospectively.

Technical accounting criteria assessment

2.1 For clarity, the technical accounting criteria assessment is considered in three sections covering scope, the own-use exception and hedge accounting, that together reflect the full extent of the changes made by the Amendments.

Scope

Amendments to IFRS 9 and IFRS 7 – Scope	
What has changed?	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. Both physical and virtual power purchase agreements could be in scope of the Amendments. Entities are not permitted to apply the Amendments to any contract, item or transaction other than contracts referencing nature-dependent electricity.
Technical criteria assessment	
Relevance and reliability	The Amendments are expected to result in a faithful representation of the contracts in scope, considering the entity's

	business model and risk management objectives in entering into those contracts. This is therefore expected to result in relevant information for users of the accounts. Contracts in scope of the Amendments expose an entity to variability in the contracted volume of electricity, because the electricity is generated from natural sources which cannot be controlled. This variability is typically associated with sources such as sun and wind[12] but not with sources such as biofuel[13] which can be stored or controlled. An entity may have to exercise judgement when determining whether a contract referencing hydroelectricity is within scope of the Amendments. Another potential area of judgement relates to the extent of variability an entity is exposed to under the contract. Some contracts include features to mitigate volume variability, making it difficult to judge whether a contract is in scope of the Amendments. The complexity of certain arrangements involving intermediaries may also complicate the assessment. However, the own-use Amendments include additional scope criteria which must be met in order for a contract to meet the own-use exception. For example, for the purposes of the own-use Amendments an entity must be exposed to variability in the contracted amount of electricity and also be forced to sell unused electricity by the design and operation of the electricity market. Similarly, entities applying the hedge accounting Amendments must also meet all other IFRS 9 qualifying criteria to apply hedge accounting. These additional requirements will assist entities in making judgements in relation to whether a contract is within the scope of the Amendments.
Understandability	The Amendments set out qualifying characteristics against which an entity assesses its contracts referencing nature-dependent electricity. This will help entities to determine the most appropriate accounting for the contract and its circumstances, resulting in financial information which is understandable for users. As mentioned above, there are additional criteria which must be met before an entity applies the own-use and hedge accounting Amendments. Therefore, users may have difficulty understanding the different routes by which an entity may apply the own-use or hedge accounting Amendments. For example, users may not realise that only contracts to purchase and take

12 Paragraph BC2.17D of the Amendments to the Basis for Conclusions on IFRS 9

13 Paragraph BC2.17G of the Amendments to the Basis for Conclusions on IFRS 9

	delivery of nature-dependent electricity are in scope of the own-use Amendments.
Comparability	The Amendments are expected to provide clarity on which contracts are in scope, improving consistency of application and resulting in comparable financial information. For example, the IASB states that it did not intend to include biofuel contracts in the scope of the Amendments as "such electricity generation <u>is not subject to the same uncertainty</u>…because the source of electricity generation is <u>controllable. Biofuel…can be stored</u> until used to generate electricity"[14] (<u>emphasis added</u>). There is a risk that providing requirements and guidance for the specific population of contracts in scope of the Amendments adds complexity to IFRS 9 requirements. If the scope is not well understood by preparers and auditors, this could result in the Amendments being applied inappropriately and affecting the comparability of financial information. However, the contracts in scope of the Amendments have unique characteristics which are not present for other commodities and justify the need for clearer requirements.

Own-use exception

Amendments to IFRS 9 and IFRS 7 – Own-use	
What has changed?	The IASB has added application guidance to Appendix B of IFRS 9 to clarify the requirements of paragraph 2.4 of IFRS 9 for contracts to purchase nature-dependent electricity. Paragraph B2.7 states that a contract referencing nature-dependent electricity meets the own-use exception if the entity has been, and expects to be, a net purchaser of electricity for the contract period. A net purchaser of electricity "buys sufficient electricity to offset the sales of any unused electricity in the same market in which it sold the electricity." Paragraph B2.8 states that in assessing whether it has been and expects to be a net purchaser, an entity shall consider reasonable and supportable information that is available without undue cost or effort and make the assessment over a reasonable period. In relation to past purchases, a reasonable period shall not exceed 12 months.

14 BC2.17G of the Amendments to the Basis for Conclusions on IFRS 9

	It is expected that certain physical PPAs for receipt of electricity, which were previously recognised as financial instruments on the balance sheet, will meet the own-use exception on application of the Amendments. Therefore, these contracts will be accounted for as executory contracts[15] rather than financial instruments measured at fair value through profit or loss. **Disclosures** For contracts which meet the own-use exception as a result of the Amendments, an entity must disclose: a) the terms and conditions which expose it to volume variability and risk of oversupply; b) information about unrecognised contractual commitments, including future cash flows and how it monitors whether the contract has become onerous; and c) information to demonstrate that it is a net purchaser under the contract, including the cost of purchases under the contract, proceeds from sales of unused electricity, and the cost of purchases made to offset those sales.
Technical criteria assessment	
Relevance and reliability	The own-use Amendments are expected to provide relevant and reliable information about the contracts in scope. Own-use accounting is expected to result in a faithful representation of a contract which has been entered into and continues to be held for the sole purpose of the entity's own electricity usage. For contracts accounted for as 'own-use' under the Amendments, electricity costs will be recognised in the income statement in the periods in which they are used. This information is capable of being reliably measured and is expected to result in relevant information for users. Investors have indicated that in such circumstances information about operating performance is more decision useful than fair value information. To ensure that the own-use Amendments "maintain the underlying principle"[16] of the own-use exception included in

15 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.

16 Paragraph BC2.18G of the Amendments to the Basis for Conclusions on IFRS 9 states "To ensure the amendments maintain the underlying principle behind the own-use exception, to reduce the risk of entities structuring transactions or contracts and to include adequate rigour within the amendments, the IASB decided to require that an entity was and expects to be a net purchaser of electricity over a reasonable amount of time."

	paragraph 2.4 of IFRS 9 and to mitigate the risk of entities structuring their transactions or contracts to achieve a particular accounting outcome, entities are required to determine that they are a net purchaser of electricity. Application guidance added to Appendix B of IFRS 9 provides clear guidelines on how to make the net purchaser assessment, to ensure adequate rigour in the application of the own-use Amendments. **Fair value** Some respondents to the IASB's proposals in the Exposure Draft said that fair value measurement provides the most useful information about the unique risks that arise from contracts to purchase nature-dependent electricity[17]. For example, fair value measurement may incorporate expectations about the future market price of electricity relative to the entity's contractual commitments. However, for entities that enter into physical PPAs to buy nature-dependent electricity in line with what they expect to use in the normal course of their business rather than for any trading or profit motive, fair value measurement may not provide predictive or confirmatory value to users of financial statements. While some early feedback on the project raised concerns about the loss of fair value information, it has become less clear that users are concerned at this. In addition, this is mitigated by the additional disclosure requirements for contracts which qualify for own-use accounting in accordance with the Amendments. These disclosures include information about the effect of a contract on the amount, timing and uncertainty of an entity's future cash flows and financial performance[18]. In addition, stakeholders have raised concerns about the reliability of fair valuations for such long-term contracts, and the volatility of such valuations arising from a significant number of assumptions, which can also be long term in nature. Stakeholders also expressed concern about the high cost[19] of obtaining fair valuations for these contracts.

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

18 See paragraph 31A of the Amendments to IFRS 7. 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 to apply own-use. An entity must also provide information about future cash flows under the contract and how it monitors whether the contract has become onerous.

19 Paragraph 2.3 of the Conceptual Framework for Financial Reporting states that "The qualitative characteristics of useful financial information apply to financial information…Cost, which is a pervasive constraint on the reporting entity's ability to provide useful financial information, applies similarly."

	Dissenting opinions Two members of the IASB dissented from the issue of the Amendments. Paragraph DO7 of the Dissenting opinions observes that own-use accounting for the contracts in scope may be misleading, as a user of the accounts would not expect such contracts to be net settled at a future date. However, if an entity is not driven by a profit motive, subsequent sales of unused electricity received under the contract (i.e., net settlement) would not necessarily preclude the contract from meeting the existing own-use exception at paragraph 2.4 of IFRS 9[20]. The additional guidance added at paragraphs B2.7 and B2.8 of the Amendments clarify how an entity assesses whether such sales of electricity are still consistent with the entity's expected usage requirements. Paragraph DO8 states that the Amendments may lead to more lenient accounting for the contracts in scope, and notes that to "maintain faithful representation, accounting should be neutral". During the influencing stage of this project, some stakeholders expressed a similar concern about setting requirements for the specific population of contracts in scope of the own-use Amendments rather than considering the issue more broadly. However, the contracts in scope of the own-use Amendments are subject to unique circumstances, such as the variability of nature-dependent electricity, the operation of electricity markets, and the difficulty of storing electricity[21] which are not present for other commodities. Therefore, additional requirements and application guidance to support the consistent application of those requirements is justified for the contracts in scope.
Understandability	As mentioned above, own-use accounting for the contracts in scope of the Amendments, together with the additional disclosure requirements, may help users understand the rationale for entities entering into and holding these contracts. If an entity meets the own-use exception, it will recognise its rights and obligations as the contract is performed[22] e.g., recognising the cost of any electricity delivered (and used) under the contract for the financial reporting period as an expense. This provides understandable information for users about the nature-dependent electricity an entity purchases for use in the normal course of its business.

20 See paragraph 2.6 of IFRS 9

21 Paragraph BC2.18E of the Amendments to the Basis for Conclusions on IFRS 9

22 Paragraph 4.58 of the *Conceptual Framework for Financial Reporting*

	Additional disclosure requirements are also expected to facilitate users' understanding of an entity's contracts referencing nature-dependent electricity. If a contract meets the own-use exception as a result of the Amendments, that contract's impact on the entity's future cash flows and financial performance must be disclosed. For example, an entity must disclose information to demonstrate that it meets the net purchaser condition which may help users to understand if a relevant contract has performed in line with expectations and business needs. This disclosure will also help users to assess management's stewardship of the entity's resources. The Amendments require disclosure of qualitative information about how an entity "assesses whether a contract might become onerous…including the assumptions the entity uses in making this assessment."[23] At present, entities only provide information about commitments which have already become onerous, so this disclosure is expected to provide useful information about the potential for relevant contracts to become onerous and the long-term exposures of such contracts. The disclosures described above will be included in a single note, making the information easy to locate and readily understandable for users. Where other disclosures are provided in the financial statements relating to nature-dependent electricity contracts, an entity shall cross refer to that information. This will aid users to understand the overall impact of such contracts on the financial statements.
Comparability	The own-use Amendments are expected to result in comparable information by supporting consistency of application. This is because they introduce requirements and guidance to clarify the application of paragraph 2.4 of IFRS 9[24] for contracts referencing nature-dependent electricity across entities. For contracts which are entered into and held for the purposes of an entity's own electricity usage, the Amendments will provide clearer guidelines to assessing whether the contract meets the own-use exception. This is expected to result in similar contracts being accounted for in a consistent way by entities. Stakeholders have generally been supportive of the IASB providing application guidance in this area, observing that there has been diversity of practice in the past.

23 30A(b)(ii) of the Amendments to IFRS 7

24 Paragraph BC2.18B of the Amendments to the Basis for Conclusions on IFRS 9

	Unit of account Some stakeholders observed that identifying the unit of account for determining if a contract meets the own-use exception can be challenging, given complex supply chains and the involvement of intermediaries and other parties. Assessing whether an entity is a net-purchaser of nature-dependent electricity and consequently meets the own-use exception requires consideration of the entity's own expected usage requirements. However, while the own-use exception is applied at a contract level, the assessment as to whether an entity is a net purchaser permits consideration of other purchases of electricity outside that contract. This assessment is however restricted to the same market in which any sales were made under the contract. The IASB ultimately concluded that developing guidance for identifying the unit of account would go beyond the narrow scope of the project but stated that an entity would consider the substance of its rights and obligations before applying the Amendments to a contract[25]. This potential inconsistency could lead to application challenges for preparers, and result in entities applying different judgements and accounting treatments, impacting the comparability of the financial information provided. However, judgements about unit of account are not specific to these Amendments and judgement is required when considering existing requirements of IFRS 9. In addition, the risk to comparability is mitigated by additional disclosure requirements which should support entities in comparing items by identifying "similarities in, and differences among, items."[26] **Disclosures** Some stakeholders have noted that the additional disclosure requirements for contracts meeting the own-use Amendments do not apply to contracts which meet the existing own-use exception at paragraph 2.4 of IFRS 9. Therefore, there may be a risk that economically similar contracts, which are accounted for in the same way, have different disclosure requirements. However, the contracts in scope of the own-use Amendments are subject to unique risks such as the variability of nature-dependent electricity, the operation of electricity markets, and the difficulty of storing electricity. The disclosure Amendments have been developed to provide information about these risks, which may not be present in other, similar, contracts. As mentioned above, users have indicated that they prefer the information resulting from the own-use Amendments to what

	they might otherwise receive if the contracts were accounted for as derivatives and measured at fair value.

Hedge accounting

Amendments to IFRS 9 and IFRS 7 – Hedge Accounting	
What has changed?	Before these Amendments were issued, the volume variability associated with contracts referencing nature-dependent electricity contract made the application of hedge accounting difficult[27]. The hedge-accounting Amendments allow an entity to apply cash flow hedge accounting to hedging relationships in which the hedged item is a variable nominal amount of forecast electricity transactions, and the hedging instrument is a contract referencing nature-dependent electricity. These Amendments are not permitted to be applied by analogy to other contracts, items or transactions. The variable nominal amount designated as the hedged item is aligned to the variable amount of electricity expected to be delivered[28] by the generation facility referenced in the contract which is the hedging instrument. Therefore, the same volume assumptions are used to measure both the hedging instrument and the hypothetical derivative[29] for the purposes of measuring hedge effectiveness. **Highly probable** Paragraph 6.3.3 of IFRS 9 requires that when the hedged item is a forecast transaction, it must be highly probable. The hedge accounting Amendments clarify that if the cash flows of the contract which is the hedging instrument "are conditional on the occurrence of a forecast transaction" which

25 Paragraph BC2.17H of the Amendments to the Basis for Conclusions on IFRS 9

26 Paragraph 2.25 of the *Conceptual Framework for Financial Reporting*

27 Paragraph BC6.663 of the Amendments to the Basis for Conclusions on IFRS 9 states "The IASB considered that an entity applying the requirements in paragraph 6.3.7 of IFRS 9 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."

28 Paragraph BC6.665 of the Amendments to the Basis for Conclusions on IFRS 9 notes that "the nominal amount expected to be delivered might refer either to the delivery by a referenced facility to the counterparty (for example a physical power purchase agreement) or to the delivery by the referenced facility to the market."

29 Paragraph BC6.676 of the Amendments to the Basis for Conclusions on IFRS 9

	is the hedged item, such a forecast transaction is "presumed to be highly probable"[30] by nature. **Disclosures** When preparing the disclosures required by paragraph 23A of IFRS 7[31], entities applying the hedge accounting amendments must disaggregate information for contracts referencing nature-dependent electricity and disclose this separately.
Technical criteria assessment	
Relevance and reliability	Permitting the designation of contracts referencing nature-dependent electricity as hedging instruments in a cash flow hedging relationship enables the reporting entity to faithfully represent the purpose and effect of its risk management activities in entering into the contract[32]. This is because such contracts expose an entity to variability in the contracted volume of electricity. They are often entered into by entities to fix the price of electricity over the contract term and mitigate the entity's exposure to price risk. The application of cash flow hedging will permit the deferral of the gain or loss on the fair value of the relevant contract "to a period or periods in which the hedged expected future cash flows affect profit or loss"[33]. This is expected to result in more relevant information for users about the effect of the contract on the entity's operating performance, by reducing the volatility associated with fair value movements in the income statement. Disaggregating the information required by paragraph 23A of IFRS 7 for these contracts will also provide relevant information for users about how well the entity is managing its risks. Since these Amendments have been developed for the specific contracts in scope, their application to other contracts could be inappropriate and erode the relevance of the resulting information for users. However, the hedge accounting Amendments are narrowly scoped, and this reduces the risk of unintended consequences for how an entity applies the requirements of IFRS 9 to other contracts. The Amendments add new requirements that can only be applied to specific hedging relationships involving contracts referencing nature-

30 Paragraph 6.10.2 of the Amendments to IFRS 9

31 "…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."

32 Paragraph 6.1.1 of IFRS 9

33 Paragraph B6.5.2 of IFRS 9

	dependent electricity. In addition, the Amendments do not supersede or amend any of the existing hedge accounting requirements of IFRS 9, which will continue to apply.
Understandability	As mentioned above, applying the hedge accounting Amendments is expected to reduce volatility in the income statement and provide information for users about the effect of the contract on the entity's operating performance. This information is readily understandable and may be more understandable than fair value movements based on models, assumptions and inputs which would not be available to many users, and which are not transparent. There is a risk that the financial information resulting from the hedge accounting Amendments will not be readily understood by users of the accounts due to the complexity of the subject matter. For example, users may not understand the mechanics of hedge accounting or how to interpret balances accumulated in a cash flow hedging reserve. However, these concerns apply to hedge accounting more generally and are not specific to the hedge accounting Amendments. The Amendments require disclosure of disaggregated information about hedging instruments within scope to assist users in understanding the entity's business activities and the risks inherent in its contracts referencing nature-dependent electricity. For example, the fair value of the relevant contracts and the disclosures required by paragraph 23A of IFRS 7 will "allow users…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"[34].
Comparability	The hedge accounting Amendments permit, but do not require hedge accounting. They are expected to improve comparability by removing the existing barriers to hedge accounting that exist for the contracts in scope e.g., variability in contracted electricity. Therefore, entities will be permitted to apply hedge accounting to their contracts referencing nature-dependent electricity, similar to other contracts which have been entered into to hedge a particular risk. Initial outreach with stakeholders suggests that the complexity and associated expense of applying the hedge accounting Amendments may deter entities from applying them.

34 Paragraph 23A of IFRS 7

	This may lead to a situation where entities with similar contracts choose different accounting treatments, which could impact on the comparability of financial information produced by different entities. One member of the IASB dissented from approving the amendments for issue, as he could see no principle-based reason for introducing a new variant of cash flow hedging for the contracts in scope of the Amendments, and not more widely. However, hedge accounting is an accounting policy choice for all hedging relationships, so this risk is not specific to the contracts applying the hedge accounting Amendments. In addition, the required disclosures for contracts applying the hedge accounting Amendments will assist users in understanding the information in the accounts and in comparing items by identifying "similarities in, and differences among, items."[35] Physical contracts that result in delivery of electricity and virtual contracts that give rise to net cash settlement often have similar economic outcomes. Own-use and cash flow hedge accounting may respectively give rise to similar income statement reporting of performance for these contracts. The Amendments may thus result in more comparable income statement information for contracts referencing nature-dependent electricity which have been accounted for in accordance with either the own-use or the hedge accounting Amendments.

Technical accounting criteria assessment conclusion

2.2 Overall, the UKEB [tentatively] concludes that the Amendments meet the criteria of relevance, reliability, understandability, and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by Regulation 7(1)(c) of SI 2019/685.

True and fair view

True and fair view assessment	
Description	As discussed above, the Amendments are expected to meet the technical accounting criteria of relevance, reliability, understandability, and comparability of financial information. Reliability includes the notion of faithful representation of the economic substance of transactions and events. The technical

	accounting criteria assessment underpins the overall true and fair view assessment.
Conclusion	The assessment has not identified any requirement of the Amendments, either alone or in conjunction with international accounting standards adopted for use in the UK, that would prevent individual or group accounts prepared using the Amendments from giving a true and fair view of the undertaking's or group's assets, liabilities, financial position and profit or loss. The UKEB is satisfied, therefore, that the circumstances in which the application of the Amendments would result in accounts which did not give a true and fair view would be extremely rare. Overall, the UKEB concludes that the Amendments are not contrary to the true and fair view principle set out in Regulation 7(1)(a) of SI 2019/685.

UK long term public good

UK long term public good assessment	
Description of entities that will be impacted	The Amendments could affect any entity that enters into a contract referencing nature-dependent electricity. Contracts referencing nature-dependent electricity expose an entity to variability in the contracted volume of electricity, because the electricity is generated from natural sources which cannot be controlled. This variability is typically associated with sources such as sun and wind[36] but not with sources such as biofuel [37] which can be stored or controlled. As noted above[38], judgement may be required to determine whether hydro contracts are within the scope of the Amendments. In the UK, wind and solar made up 26% and 8% of the UK's total electricity generation respectively in the third quarter of 2024. Bioenergy and hydro made up 15% and 2% respectively in the same period[39].

36 Paragraph BC2.17D of the Amendments to the Basis for Conclusions on IFRS 9

37 Paragraph BC2.17G of the Amendments to the Basis for Conclusions on IFRS 9

38 See Scope: Technical criteria assessment table above – Relevance and reliability.

39 UK Energy Trends, July to September 2024

	A review of 2023 annual reports highlighted that more than 60 UK listed IFRS reporters from across a range of sectors and sizes referred to PPAs.[40] However, the information disclosed in the first half of the annual report varied between companies: • some simply mentioned that they intended to enter into PPAs in the future; • some reported that they had already entered into PPAs and some of those disclosed the value of the contracts; and • some included more detailed information about PPAs in their ESG disclosures. Overall, a minority of entities disclosed information on PPAs in the notes to their financial statements.[41] Information about PPAs is typically disclosed in IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement* disclosures when PPAs are measured at fair value (level III).[42] Use of contracts referencing nature-dependent electricity is expected to grow to meet an anticipated increase in demand in the UK for electricity generated from renewable sources.[43]
Do the amendments improve financial reporting?	The Amendments introduce requirements and application guidance on accounting for contracts referencing nature-dependent electricity. The resulting financial information is expected to result in a faithful representation of such contracts, reflecting the entity's business model and its risk management objectives in entering into those contracts. Compared with the current requirements, these Amendments are expected to result in more relevant and reliable information about contracts in scope. For example, for contracts in scope, the own-use Amendments would remove income statement volatility associated with fair value movements which would not convey decision-useful information to users given the nature of the contracts. Treating contracts in scope as executory contracts (and expensing associated costs) will allow users to clearly see the costs recognised on those contracts for nature-dependent electricity used in an entity's business, and therefore how well it has managed its operations.

40 The term 'contracts referencing nature-dependent electricity' could include physical and virtual PPAs with the specific characteristics set out in the scope of the Amendments at paragraph 2.3A.

41 Information retrieved from AlphaSense and FCA National Storage Mechanism.

42 See for example Sainsbury's Plc annual report 2023; Britvic annual report 2024.

43 This expectation was supported by stakeholder engagement and desktop research. See Aurora Energy Research (2022).

	The disclosure requirements will assist users of financial statements to understand the potential effect of these contracts on the accounts. For example, the Amendments require an entity to disclose information about the long-term commitments and exposures of the contracts that meet the own-use exception. For these specific contracts, this information can be more reliably obtained by preparers and may be more understandable for users than a fair value measurement since in the latter case, long term cash flows and expectations are incorporated into the valuation figure. The requirements provide clarity on the accounting treatment for contracts in scope. This will ensure that the diversity in accounting and reporting of these contracts noted above will be removed, leading to more consistent accounting treatment, both year-on-year and between companies. It will also ensure that investors will better comprehend the information provided. The UKEB raised concerns that introducing rules-based Amendments for a specific population of contracts risked introducing additional complexities to the existing requirements. The risk of unintended consequences was also noted, for example if the Amendments are applied by analogy in practice. However, the narrow scope of these contracts and mitigation built into the requirements themselves (e.g., the hedge accounting Amendments cannot be applied by analogy to other types of contracts) limits the risks associated with rules-based accounting. As discussed in the technical accounting criteria assessment above, the Amendments are expected to result in relevant, reliable, understandable, and comparable financial information for entities that hold contracts referencing nature-dependent electricity. Therefore, it is expected that the Amendments will improve financial reporting.
Costs for preparers and users	**Implementation costs for preparers** **Costs that apply to all requirements** Entities that hold contracts referencing nature-dependent electricity (both sellers and buyers) will have to familiarise themselves with the new requirements. Familiarisation costs are expected to be one-off and entail a limited time re-allocation of finance department staff. Preparers are not anticipated to incur major costs associated with accounting system changes, changes to data handling

	processes and controls, or changes to accounts preparation, as a result of the Amendments.[44] **Own-use** The Amendments allow the application of the own-use exception for contracts referencing nature-dependent electricity that meet the criteria[45]. As noted, this would result in entities expensing the net cost of purchasing electricity through profit and loss, without having to recognise the contract as a financial instrument at fair value on the balance sheet. The related additional disclosures would provide users with decision-useful information about these contracts. Entities are therefore likely to face both incremental costs and incremental cost savings as a result of the own-use Amendments. Some costs would arise due to the initial assessment of whether existing contracts referencing nature-dependent electricity meet the amended own-use criteria. Such one-off assessment would likely require a limited time re-allocation of finance department staff. It is expected that ongoing costs associated with the assessment of future contracts will be subsumed into business-as-usual.[46] For contracts that meet the criteria, preparers will face some trade-offs: • As they will expense related energy costs through profit and loss rather than recognising contracts at fair value, preparers will likely reap ongoing cost-savings, as the fair value measurement of those contracts is complicated and costly to obtain. Preparers indicated that they prefer own-use accounting due to the expense and difficulty of obtaining reliable fair valuations for these highly complex and long-term contracts. • There is also an expectation of one-off costs associated with the net purchaser disclosures (e.g., building a reliable and auditable mechanism for identifying the cost

44 EY noted that obtaining the quantitative and qualitative data needed for the required disclosures may require additional effort and perhaps system updates. See EY, IFRS Developments, Issue 234, January 2025.

45 See Own-use: Technical criteria assessment table above – What has changed.

46 EFRAG's assessment is that the Amendments are likely to reduce the costs for preparers by allowing the NDE contracts to be accounted for as executory contracts (alleviating the costs associated with the fair value measurement and disclosure at each reporting date) and by allowing for the alignment of the hedge accounting with the risk management of the company (aligning the amount assumptions between the hedge item and the hedging instrument, alleviating the need for calculating the ineffectiveness related to the amount/profile mismatch). These cost reductions are partially offset by additional disclosure requirements introduced by the Amendments; however, the information requested is expected to be available or would be available with minimal ongoing costs once the implementation occurred. See EFRAG (2025).

	of offsetting purchases), although such costs are not expected to be incurred on an ongoing basis. • However, there will be other incremental ongoing costs for preparers associated with the disclosure requirements for contracts which meet the criteria. Stakeholder feedback on the cost of additional disclosures has been mixed. Some stakeholders are of the view that the information, being entity specific, will likely be easy to obtain. Others highlighted challenges around gathering data, for example, where there are multiple contracts in the transaction chain. Overall, stakeholder feedback suggests that the cost of additional disclosures is not thought to be significant, though there was some mixed feedback on the availability of required information. The cost of preparing disclosures is generally expected to be lower than that of obtaining a fair valuation for the relevant contracts, resulting in an overall anticipated net cost saving for preparers. **Hedge accounting** The Amendments make is easier to apply hedge accounting to contracts referencing nature-dependent electricity that meet the criteria. As noted, this is achieved by designating as the hedged item a variable nominal amount of forecast electricity transactions[47]. Since hedge accounting is voluntary, it is expected that entities that choose to apply hedge accounting would on balance anticipate a benefit in doing so. The incremental costs arising as a result of the hedge accounting Amendments are not expected to be significant. Some costs would arise due to the initial assessment of whether hedge accounting can be prospectively applied to existing contracts referencing nature-dependent electricity in light of the new requirements. Such one-off assessment would require a limited time re-allocation of finance department staff. It is expected that ongoing costs associated with the assessment of future contracts will be subsumed into business-as-usual.[48] The additional disclosure requirement for contracts applying the hedge accounting Amendments is for entities to disaggregate

47 See Hedge accounting: Technical criteria assessment table above – What has changed.

48 With regard to hedge accounting, EFRAG assesses that the hedge accounting is optional and that the Amendments offer an entity an opportunity to apply hedge accounting in situations where the hedged item is variable, thus improving the relevance of information. As such, the Amendments are not expected to result in additional costs for preparers resulting from hedge accounting. See EFRAG (2025).

	information for these contracts which is already required, in aggregate form, under the existing requirements of IFRS 7. Therefore, the additional requirements are not considered to be onerous. As the Amendments facilitate the application of hedge accounting for contracts in scope, preparers will have to embed additional monitoring costs into their assessment of whether to apply hedge accounting. If they choose to apply hedge accounting, they will incur some incremental monitoring costs. **Implementation costs for users** Users of financial statements are anticipated to incur minor familiarisation costs.
Benefits for preparers and users	The own-use Amendments will result in incremental benefits for preparers and users. **Incremental benefits for preparers** As noted, preparers that are able to apply own-use treatment as a result of the Amendments are expected to make some overall net cost savings. **Incremental benefits for users** **Own-use** Investors have indicated that they typically do not use fair value information for assessing the effects of contracts referencing nature-dependent electricity on the financial performance of an entity. It is expected that the additional disclosures required for contracts in scope of the own-use Amendments will result in information for users which is understandable and provides useful information about the long-term commitments, long-term cash flows and exposures under these contracts. In addition, for contracts in scope the own-use Amendments would remove income statement volatility associated with fair value movements. This volatility would not convey decision-useful information to users given the nature of the contracts. Feedback from stakeholders suggested that users of financial statements may make adjustments to cleanse the results of fair value volatility. The Amendments will make these adjustments unnecessary, thus helping users save time when analysing financial statements. As a consequence, the own-use Amendments are on balance expected to provide a benefit for users of financial statements.

	Hedge accounting The Amendments allow the possibility of hedge accounting using contracts within scope, where previously this would not have been permitted. This will allow entities to better report the underlying economics of such contracts, and therefore improve the relevance of financial statements for the benefits of users.
Costs and benefits considerations associated with technological change	Renewable electricity markets and contracts are expected to evolve: • Stakeholders noted that the development of contracts that do not expose a purchaser to the variability of underlying electricity may, over time, reduce the need for these Amendments and erode their relevance. • Technological advancements, such as the availability of cost-effective storage, may also reduce the need for the Amendments over time for new contracts if the result is that entities are no longer forced to sell unused electricity by the operation of the electricity market. This may be problematic considering that preparers and users are expected to incur some implementation costs, although relatively contained, if the benefits associated with the Amendments may be relatively short-lived. However, the Amendments apply to contracts that are typically long-term, so they would remain applicable to existing contracts. This factor mitigates the risk that the benefits of the Amendments are insufficiently long-term to outweigh the costs of implementation.
Whether the Amendments are likely to have an adverse effect on UK economy	The UKEB has not identified any factors to indicate that the Amendments would lead to wider economic effects that are detrimental to the UK economy, though some economic effects are likely to be observed. Feedback from stakeholders suggested that, prior to the issue of these Amendments, the IFRS 9 requirement to recognise certain contracts referencing nature-dependent electricity on the balance sheet at fair value could deter entities from entering into these contracts. Feedback from stakeholders also suggested that the new requirements allow the possibility of hedge accounting with certain contracts where this would not previously have been possible. Consistently, feedback from stakeholders suggested that the Amendments may effectively

	remove a barrier for entities wishing to enter into a contract referencing nature-dependent electricity[49]. The Amendments may have the following economic consequences: • **Encourage the development of green energy supply**: energy generators typically use contracts referencing nature-dependent electricity as collateral to fund projects for the generation of renewable energy. Therefore, removing barriers to entering these contracts may encourage the transition to green energy supply at a country level. • **Help companies meet their net-zero targets**: energy buyers that enter contracts referencing nature-dependent electricity often receive renewable energy guarantee of origin certificates (REGOs) that they can retire to offset their emissions.[50] Therefore, removing barriers to entering these contracts would encourage entities' transition to net zero. • **Encourage risk-taking behaviour**: a concern may be raised about buyers entering these contracts to meet their net-zero targets without properly assessing the risks involved. However, to the extent that risks are involved, own-use disclosures would provide users of financial statements with information to support their decision-making. On balance, the UKEB believes that these Amendments are not likely to have any adverse effect on the UK economy, including on economic growth. As such, the Amendments are likely to be conducive to the UK long term public good.
Conclusion	Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments, the UKEB concludes that the use of the Amendments is likely to be conducive to the long term public good in the UK as required by Regulation 7(1)(b) of SI 2019/685.

49 It remains to be seen whether the Amendments could potentially result in entities structuring contracts to ensure a particular accounting outcome. [Phil A, UKEB Jan board meeting].

50 The Amendments do not deal with the accounting for REGOs.

Do the Amendments lead to a significant change in accounting practice?

2.3 The UKEB is required to assess whether or not the Amendments are likely to lead to a 'significant change in accounting practice' and therefore meet the criteria for a post-implementation review.

2.4 The Amendments are narrow in scope and add new requirements or clarify existing requirements for contracts referencing nature-dependent electricity. The Amendments do not replace existing requirements of IFRS 9 or IFRS 7, or introduce new principles. The Amendments also introduce additional disclosure requirements for contracts referencing nature-dependent electricity.

2.5 As a result, the UKEB [tentatively] concludes that the Amendments are not likely to lead to a significant change in accounting practice and do not meet the criteria for a post-implementation review under Regulation 11 in SI 2019/685.

Glossary

Term	Description
The Amendments	Amendments to IFRS 9 and IFRS 7 – Contracts Referencing Nature-dependent Electricity
DECA	Draft Endorsement Criteria Assessment
EFRAG	European Financial Reporting Advisory Group
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard(s)
SI	Statutory Instrument
UKEB	UK Endorsement Board

UKEB
UK Endorsement Board

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Appendix B: Invitation to Comment

Call for comments on Draft Endorsement Criteria Assessment of *Amendments to IFRS 9 and IFRS 7 Contracts Referencing Nature-dependent Electricity*

Deadline for completion of this Invitation to Comment:
Close of business, [Monday 2 June 2025]
Please submit to:
UKEndorsementBoard@endorsement-board.uk

Introduction

The objective of this Invitation to Comment is to obtain input from stakeholders on the endorsement and adoption of *Amendments to IFRS 9 and IFRS 7 – Contracts Referencing Nature-Dependent Electricity* (the Amendments), published by the International Accounting Standards Board (IASB) in December 2024. The Amendments to IFRS 9 introduce new guidance into that standard for the application of own-use requirements to contracts referencing nature-dependent electricity, and new hedge accounting requirements for those contracts. The Amendments to IFRS 7 require entities to provide relevant disclosure about contracts within their scope. The Amendments will be effective for annual periods beginning on or after 1 January 2026. Earlier application is permitted. The information collected from this Invitation to Comment is intended to help with the endorsement assessment.

UK endorsement and adoption process

The requirements for UK adoption are set out in Statutory Instrument 2019/685[1].

[1] The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019: https://www.legislation.gov.uk/uksi/2019/685/made

The powers to formally adopt international accounting standards for use in the UK were delegated to the UK Endorsement Board in May 2021[2].

Who should respond to this Invitation to Comment?

Stakeholders with an interest in the quality of accounts prepared in accordance with IFRS 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 to **UKEndorsementBoard@endorsement-board.uk** by close of business on [Monday 2 June 2025].

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

Privacy and other policies

The data collected through submitting 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)[3].

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.

2 The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021: https://www.legislation.gov.uk/uksi/2021/609/contents/made

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

Assessment against endorsement criteria

Our draft assessment [tentatively] concludes that:

- the Amendments meet the criteria of relevance, reliability, understandability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685 (see Regulation 7(1)(c));
- application of the Amendments is not contrary to the principle that an entity's accounts must give a true and fair view as required by SI 2019/685 (see Regulation 7(1)(a)); and
- that the Amendments are likely to be conducive to the long term public good in the UK as required by SI 2019/685 (see Regulation 7(1)(b)), having considered:
  - whether they will generally improve the quality of financial reporting;
  - the costs and benefits that are likely to result from their use; and
  - whether they are likely to have an adverse effect on the economy of the UK, including on economic growth.

Our assessment of the Amendments is set out in **Section 2** of the DECA.

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Question

Technical accounting criteria assessment

1. Do you agree with the draft assessment of the Amendments against the technical accounting criteria? (please select one option)

Yes	☐	**No**	☐

2. Please include any comments you may have in response to question 1:

Click or tap here to enter text.

True and fair view

3. Do you agree with the draft assessment that the Amendments **are not contrary to the true and fair view requirement**? (please select one option)

Yes	☐	**No**	☐

4. Please include any comments you may have in response to question 3:

Click or tap here to enter text.

UK long term public good

5. Do you agree with the initial overall assessment of **costs and benefits** likely to arise from the Amendments? (please select one option)

Yes	☐	**No**	☐

6. Please include any comments you may have in response to question 5 including, if applicable, any indicative cost estimates or if any costs or benefits have been omitted from the analysis:

Click or tap here to enter text.

7. Do you agree with the draft assessment that the Amendments are likely to be conducive to the **long term public good in the UK**? (please select one option)

Yes	☐	**No**	☐

8. Please include any comments you may have in response to question 7:

Click or tap here to enter text.

9. Do you have **any other comments** you would like to add?

Click or tap here to enter text.

Thank you for completing this Invitation to Comment

Please submit this document

by close of business on [Monday 2 June 2025] to:

UKEndorsementBoard@endorsement-board.uk