

Appendix
Draft Contracts for Renewable Electricity - ANC Comment Letter

The Appendix is structured as follows:

- . Question 1 - Scope of the proposed amendments (paragraphs 1-5);
- . Question 2 - Proposed “own-use” requirements (paragraphs 6-11);
- . Question 3 - Proposed hedge accounting requirements (paragraphs 12-13);
- . Question 4 - Proposed disclosure requirements (paragraphs 14-19);
- . Question 5 - Proposed disclosure requirements for subsidiaries without public accountability (paragraph 20);
- . Question 6 - Transition requirements (paragraphs 21-24); and
- . Question 7 - Effective date (paragraphs 25-26).

Question 1 - Scope of the proposed amendments

1. Draft paragraph 6.10.1 of the proposed amendments to IFRS 9 limits the application of the amendments to contracts for renewable electricity cumulating two types of characteristics. Firstly, the purchaser has no guarantee on the timing and volume of the electricity supply, since the source of production is nature-dependent. Secondly, the risk that the volume of electricity produced does not align with the purchaser's demand for electricity at the time of production exposes the purchaser to a volume risk, and substantially all that risk under the contract is transferred to the purchaser through "pay as produced" features. Draft paragraph 6.10.2 states that the proposed amendments should not be applied by analogy to contracts, items or transactions other than contracts for renewable electricity cumulating these two characteristics.
2. The ANC globally agrees with the way in which the IASB has designed the narrow scope of the proposed amendments and in particular, finds relevant the concepts of (i) "nature-dependent" source of production introduced in draft paragraph 6.10.1(a) and (ii) "volume risk" as described in paragraph 6.10.1 (b) of the project. These two concepts will likely circumscribe "renewable electricity" contracts falling within the scope of the draft amendment. Besides the ANC understands that other contractual designations, such as "pay as nominated" may be used in practice, while exposing the purchaser to the "volume risk" and "nature dependence" criteria provided by the Exposure Draft.
3. In addition, the ANC agrees with the requirement in paragraph 6.10.2 not to apply the proposed amendments by analogy to contracts, items or transactions other than contracts for renewable electricity.
4. The ANC appreciates that the proposed amendments seek to offer a solution to both physical and virtual power purchase agreements (PPAs), as stated in the beginning of paragraph 6.10.1. However, the ANC notes that the term "purchaser" used in draft paragraph 6.10.1(b) seems to apply only to physical, and not to virtual PPAs. For the avoidance of doubt, the ANC thus suggests replacing "purchaser" with "party to a PPA contract which is not the electricity producer" to better accommodate virtual PPAs, and reflect that there is no "purchaser" of electricity in a derivative contract that is only net settled in cash.
5. Besides, the ANC understands that the risk described in draft paragraph 6.10.1(b), whereby the purchaser is exposed "to substantially all the volume risk under the contract through "pay-as-produced" features", seems to designate the exposure of the off-taker to a risk on the purchased production of the PPA unit, e.g. a solar farm or a windfarm, when the off-taker needs the electricity. If this understanding is correct, the ANC suggests that draft paragraph 6.10.1(b) be redrafted to raise awareness of the underlying intent and confirm that the assessment of the volume risk exposure should be performed at PPA contract level and not at PPA unit level. This being confirmed, the IASB could usefully provide further clarification when assessing the "substantially all" criterion at PPA contract level.

Question 2 - Proposed "own-use" requirements

6. Draft paragraph 6.10.3 of the proposed amendments to IFRS 9 includes the factors an entity would be required to consider at inception of the contract and at each subsequent reporting date, when applying the "own-use" requirements outlined in paragraph 2.4 of IFRS 9 to the contracts to buy and take delivery of renewable electricity that are in the scope of the proposed amendments. The entity would consider the purpose, design and structure of the contract including the volumes of electricity expected to be delivered over the remaining duration of the contract, as well as the reasons for past and expected sales of unused renewable electricity within a short period after delivery and whether such sales fit into the entity's expected purchase or usage requirements. To demonstrate that a sale of unused electricity fits into the entity's expected purchase or usage requirements, the sale should arise from the entity's exposure to the volume risk and be subject to the design and operation of the market in which the electricity is sold. In addition, the entity should expect to purchase at least an equivalent volume of electricity within a reasonable time, for example, one month, after the sale.

"Remains a net-purchaser over a reasonable amount of time" (draft paragraph 6.10.3(b)(iii) of IFRS 9 and BC20)

7. The ANC globally agrees with the proposed "own-use" requirements. In particular, the IASB's efforts to make the "within a reasonable time" requirement in draft paragraph 6.10.3(b)(iii) as clear as possible are welcome by introducing the concept of "net-purchaser over a reasonable amount of time". The ANC suggests, as stated in BC20(c), that the notion of "reasonable amount of time" be based on the entity's operations. The ANC examined the "one-month" example and the feedback received from stakeholders is dual. On the one hand, a consensus emerged on the fact that allowing a too long repurchase period could result in abuse. On the other hand, the "one-month" example was perceived as too short to capture situations that are rather common in practice, e.g. an excess of solar energy over the summer period due to lower consumption by the off-taker - referred to as "operating cycle seasonality"; and/or higher production by the solar panels - referred to as "meteorological seasonality".
8. The ANC thus suggests that the "one-month" example in draft paragraph 6.10.3(b)(iii) be extended to these two types of "operating cycle" and "meteorological" seasonalities, while also requiring that such assessment be made on a rolling basis, over a period no longer than 12-months as an anti-abuse provision.

Ancillary services contracts associated with PPAs

9. Over the examination of the proposals of the Exposure Draft, several stakeholders pointed out to the ANC that, in addition to the producer and the purchaser, whose roles are described in the IASB's draft amendments, the French electricity market structure includes other service providers whose services, formalised in contracts related to the PPA, interact with the latter and as such, need to be considered in the analysis. These service providers are the supplier, which connects the purchaser to the grid, and the aggregator, which ensures the stability of the electricity grid by balancing supply and demand for renewable electricity. The ANC understands that similar market structures may be found in other jurisdictions.
10. In practice, when the purchaser has no access to the grid, the purchaser needs to enter into ancillary separate contracts with the supplier and the aggregator in order to obtain the delivery of the electricity purchased from the PPA to its consumption sites. In this context, the purchaser will sell the PPA production at a specified price to the aggregator, and simultaneously repurchase the electricity at the same specified price from its supplier:
 - (i) In one case, the purchaser remains exposed to the volume risk of the PPA production when the specified price is a spot price; and
 - (ii) In another case, an additional contractual link exists between the supplier and the aggregator, which mitigates the volume risk by profiling the quantities available on the grid according to predefined delivery profiles of electricity supply in terms of quantity and timing referred to as "solar bell" or "wind ribbon", depending on the source of production. In this case, the specified price will generally be the PPA price, i.e. a fixed price.

11. In order to prevent stakeholders operating in such or similar types of contractual environments from encountering difficulties in applying the amendments, the ANC suggests that the drafting of the amendments clarifies that the analysis of a PPA needs to include all the ancillary services contracts provided around the PPA and would require to demonstrate that the off-taker effectively remains a net purchaser for the duration of the PPA contract. To achieve this objective, the purchaser should be required to demonstrate that, after taking into account all the ancillary services that have been provided by the aggregator and the supplier, it still remains a net-purchaser over a reasonable amount of time for all its consumption sites, and as a result the PPA itself continues to expose the purchaser to the volume risk for the duration of the contract.

Question 3 - Proposed hedge accounting requirements

12. Draft paragraph 6.10.4 of the proposed amendments to IFRS 9 would permit an entity to designate a variable nominal volume of forecast electricity transactions as the hedged item if the hedged item is specified as the variable volume of electricity to which the hedging instrument relates, and the designated volume does not exceed the volume of future electricity transactions that are highly probable. In addition, draft paragraph 6.10.5 specifies that forecasted sales specified as the variable volume of electricity to which the hedging instrument relates, are not required to be highly probable if the hedging instrument relates to a proportion of the total future renewable electricity sales from the production facility. Finally, draft paragraph 6.10.6 permits the hedged item to be measured using the same volume assumptions as those used for measuring the hedging instrument.
13. The ANC globally agrees with the proposed hedge accounting requirements. The ANC nevertheless recommends that the IASB considers, as part of the IFRS 9 hedge accounting PIR, the need for additional hedging requirements for financial instruments with a contingent event feature when assessing the “highly probable” criterion.

Question 4 - Proposed disclosure requirements

14. Draft paragraphs 42T to 42W of the proposed amendments to IFRS 7 would require an entity to disclose information that would enable users of financial statements to understand the effects of contracts for renewable electricity that have specified characteristics on the entity's financial performance and the amount, timing and uncertainty of the entity's future cash flows.
15. As indicated in the comments on the previous questions, the ANC is supportive of most of the IASB's proposals to clarify how contracts for renewable electricity meet the criteria for the "own-use" exemption. Similarly, the ANC supports the proposed disclosures to the extent that they provide an understanding of the application of the "own-use" exemption for PPA with physical delivery of electricity. In this respect, the disclosure proposals are welcome, except for the following aspects on which the IASB's attention is drawn.
16. Firstly, the ANC wishes to express three general comments on the drafting of the proposed paragraphs on disclosures:
 - (i) The general objectives of the disclosures should be stated once and not repeatedly using the same terminology as is currently the case;
 - (ii) The ANC believes that the scope of the proposed disclosures should be restricted to physical PPAs to which the "own-use" exemption applies. For virtual PPAs and physical PPAs that fall within the scope of IFRS 9, the ANC considers that the current IFRS 7 requirements are sufficient to provide information on derivatives and hedging transactions and that there is no need for additional specific disclosure requirements; and
 - (iii) The ANC observes that PPAs that comply with the "own-use" exemption are executory contracts that fall within the scope of the disclosure requirements in IAS 37 and IFRS 15. Therefore, the PPAs falling within the scope of this amendment should to be subject to the same disclosure requirements as all energy supply contracts that do not fall within the scope of this amendment. As a consequence, the ANC suggests that disclosures proposed in the present amendment should be transferred to the disclosure sections of IAS 37 and IFRS 15, subject to the observations below.
17. With regards to the provisions of draft paragraph 42U, the ANC understands that these proposals should solely be applicable to renewable electricity producers. If this understanding is correct, this intent should be clarified, in order to avoid this paragraph being unintentionally applicable to buyers performing occasional sales due to a mismatch between the quantities delivered and the quantities consumed.
18. Besides, the ANC considers that the disclosures required for purchasers by draft paragraph 42V(a) are relevant, but would be more appropriately located in the sustainability report.
19. The ANC considers that the proposals in draft paragraph 42V(b)-(d) go beyond the information needed to understand how these contracts affect the entity's financial performance for the reporting period. In the preliminary comments expressed prior to the Exposure Draft by the ANC and other stakeholders, the sensitive nature of the information relating to contract prices was emphasised and remains valid. The proposals in draft paragraph 42V(b)-(d) appear to be a convoluted way of reconstituting price-related information and as such, would need to be withdrawn for the same reasons.

Question 5 - Proposed disclosure requirements for subsidiaries without public accountability

20. The ANC is not commenting this issue.

Question 6 - Transition requirements

21. The IASB proposes to require an entity to apply the amendments in relation to the “own-use” requirements in IFRS 9 using a modified retrospective approach, while the amendments in relation to the hedge accounting requirements should be applied prospectively. Early application of the proposed amendments would be permitted from the date the amendments were issued.
22. Draft paragraph 7.2.52 of the Exposure Draft specifies that the entity may change the designation of the hedged item in a cash flow hedge relationship that was designated before the first application of the amendments. This paragraph specifies that this change constitutes neither the discontinuation of the hedging relationship, nor the designation of a new hedging relationship. The ANC encourages the IASB to clarify the date at which the modelling of the new hypothetical derivative should be performed in accordance with paragraph B6.5.5 of IFRS 9, in order to measure the ineffectiveness of the hedging relationship at the transition date. In this respect, the ANC understands that the new hypothetical derivative would be modelled based on the conditions prevailing at the inception date of the initial hedging relationship. On that basis, it would be useful to clarify whether the ineffectiveness impact at the transition date calculated in accordance with paragraph 6.5.11 of IFRS 9 should be recognised immediately in equity, or immediately through profit or loss, or spread over the residual maturity, using the effective interest rate method, based on a hypothetical derivative modelled on the conditions prevailing at the transition date.
23. The ANC would also welcome specific transition provisions for contracts that were previously measured at fair value through profit or loss, i.e. not designated as hedges for operational simplification reasons, which could be designated within a cash flow hedge relationship when the amendments are first applied. Such a specific transition provision would aim at avoiding the recognition of technical ineffectiveness due to a non-zero starting hedging instrument at hedge inception, based on a hypothetical derivative modelled on the conditions prevailing at the contracting date.
24. Finally, the ANC think that there could be a case for applying hedge accounting requirements retrospectively rather than prospectively for renewable electricity producers and for parties to a PPA contract which are not the electricity producer, whose expected needs are always greater than the variable volume of electricity produced under a virtual PPA. Since a virtual PPA is viewed as perfectly effective from its contracting date; the IASB provided a rather similar exception for the accounting for the time value of options in paragraph 7.2.26(a) of IFRS 9 in which, for the IFRS 9 first-time application, entities had been allowed to apply the accounting for the time value of options retrospectively.

Question 7 - Effective date

25. The IASB decided not to propose an effective date before obtaining feedback from stakeholders on the amendments. However, the IASB would like to understand if an effective date of annual reporting periods beginning on or after 1 January 2025 would be appropriate and provide enough time to prepare to apply the proposed amendments.
26. The ANC considers that an effective date on 1 January 2025 would be appropriate in the present circumstances.