



**Comment Letter on the EFRAG DCL on the Exposure Draft Contracts for Renewable Electricity  
- Proposed amendments to IFRS 9 and IFRS 7**

President of the EFRAG Financial Reporting Board  
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Madrid, 15<sup>th</sup> July 2024

Dear Wolf,

The Instituto de Contabilidad y Auditoría de Cuentas (ICAC) welcomes the opportunity to express its comments on this Exposure Draft on Contracts for Renewable Electricity. We recognise the importance of this project and the efforts made by the IASB to propose solutions to account for renewable electricity contracts.

Power purchase agreements (PPAs) have experienced significant growth in recent years globally, especially in the renewable energy sector. Thanks to the growing awareness of the importance of sustainability and the transition to cleaner energy sources, more and more companies are opting to enter into long-term power purchase agreements with renewable energy producers. In this context, we express our sincere appreciation to the IASB for their dedication and efforts in the analysis and development of the Exposure Draft (ED).

In general, we welcome the amendments proposed by the IASB, understanding that these clarifications will help companies address current challenges related to Power Purchase Agreements, reducing diversity in practice, and providing more useful and faithful information to users of financial statements.

Also, note that we support a narrow-scope approach and that the proposals should be limited to renewable electricity contracts and no other commodities. However, while this Institute supports the proposals made in the ED, we wish to express our reservations with respect to the

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scope of the amendments, stating that we consider it necessary that a wider range of renewable electricity contracts than those delimited in the scope be included in the ED.

Regarding EFRAG's position developed in the DCL of the Exposure Draft Contracts for Renewable Electricity, this Institute supports in general terms the doubts and suggestions addressed by EFRAG.

The appendix to this letter sets out our responses to the questions in the Exposure Draft.

We would like to end this letter by thanking you for the opportunity to allow this Institute to participate in this comment process and hope that our input will contribute to the development of the project.

Please don't hesitate to contact us if you would like to clarify any point of this letter.

Yours sincerely,

Santiago Durán Domínguez

Chairman of the ICAC





## APPENDIX

### Question 1—Scope of the proposed amendments

Paragraphs 6.10.1–6.10.2 of the proposed amendments to IFRS 9 would limit the application of the proposed amendments to only contracts for renewable electricity with specified characteristics.

Do you agree that the proposed scope would appropriately address stakeholders' concerns (as described in paragraph BC2 of the Basis for Conclusions on this Exposure Draft) while limiting unintended consequences for the accounting for other contracts? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

### ICAC's Response

In general, the ICAC supports the amendments proposed by the IASB regarding the scope. We consider it important and an issue to be addressed, a modification of the scope that allows entities, evaluating all the premises and their compliance, to consider the accounting of Power Purchase Agreements applying the own-use exception or hedge accounting.

We are also in favour of limiting the scope of the modifications. However, we believe that in certain respects it would not be appropriate. If we understand that the sources of renewable energy production are limited to three, as well as not specifying the different types of renewable electricity agreements by type of energy, leaves out of the scope of PPAs, which, although at present, are not as well developed as wind or photovoltaic PPAs, are taking place. Furthermore, we consider that the motivation of a modification, although limited in scope, seeks to respond to the same problem.

We suggest to the IASB that, within the characteristics included in paragraph 6.10.1, should take into account the variety of renewable electricity contracts considering all the existing types of renewable energy as well as the characteristics that define each of them.

### *Questions to Constituents*





- Question 1.1: Are you aware of power purchase agreements (PPAs) where there is uncertainty of whether the agreement meets or fails the requirements in the proposed text in paragraph 6.10.1 of the ED? If so, please provide a description of these PPAs and let us know if these are prevalent.

#### ICAC's Response

In relation to paragraph 6.10.1 (a) proposed by the IASB, we agree with EFRAG that a clarification of this paragraph is needed. EFRAG requests that the meaning of "dependent on nature" should be clarified.

From our point of view, we consider that the own term *renewable electricity* already includes this dependence on nature, and therefore including a greater precision of the origin or type of energy would delimit the characteristics that define this type of contract. An alternative to achieve this objective could be to include a reference to the types of renewable electricity, such as wind, solar, hydroelectric, etc., in addition to the sources of production.

We agree with EFRAG that the limitation of the scope of application to contracts with a "pay-as-produced" function defines only a part of renewable electricity contracts for which both own-use requirements and hedge accounting could be applicable.

As a conclusion, the delimitation of the scope of the standard requires a more specific analysis of renewable electricity production sources. Not considering all the common characteristics of these contracts and limiting the application of the amendments exclusively to more specific cases may not be consistent with the objective pursued by these amendments.

- Question 1.2: Do you consider appropriate using the term 'renewable electricity' in the proposed amendments taking into account that:
  - the term 'renewable' is not defined in the ED;
  - the RECs (or similar certificates) are not considered within the proposed amendments.

Why or why not? Do you foresee any challenges if the term 'renewable' is omitted and the proposals only refer to "electricity"?





ICAC's Response

The term renewable is a general term used to define energy from renewable sources, which are those that come from nature and are replenished faster than they can be consumed. Renewable energies are those that are obtained from natural sources and are inexhaustible or renewable, as opposed to non-renewable energies such as fossil fuels.

From our point of view, we consider that the term renewable is adequate to define, or in this case, to characterize this type of power purchase agreement, because it mainly considers the dependence on nature.

Furthermore, the boom in this type of contracts has its origin in the significant impact and development of renewable energies, being in line with the global energy transformation.

- Question 1.3: Paragraph 6.10.1(a) of the ED provides a non-exhaustive list of sources of production of nature-dependent renewable electricity including wind, sun and water. Should the proposed amendments instead include a complete list of sources of production to make the narrow-scope proposals clear and specific?

ICAC's Response

Reference to sources of production is noted in question 1.1.

<p><b>Question 2—Proposed 'own-use' requirements</b></p> <p>Paragraph 6.10.3 of the proposed amendments to IFRS 9 includes the factors an entity would be required to consider when applying paragraph 2.4 of IFRS 9 to contracts to buy and take delivery of renewable electricity that have specified characteristics.</p> <p>Do you agree with these proposals? Why or why not?</p> <p>If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?</p>
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ICAC's Response





In general terms, this Institute supports the IASB's proposal on the application of the own-use exception in contracts for the purchase and receipt of renewable electricity. However, with respect to paragraph 6.10.3.a), we understand that the ongoing assessment of the contract throughout its duration may be more demanding than own-use assessments in other types of contracts other than renewable energy contracts. In line with EFRAG's position, we consider that this assessment should be reviewed to ensure its appropriate applicability in different contractual contexts.

In relation to the IASB's proposal on the assessment of sales of unused renewable electricity, as raised in paragraph 6.10.3.b), this Institute recognizes that these new requirements will facilitate an appropriate assessment to avoid speculative purposes in such sales, aligning them with the actual operational needs of the entity. However, we support EFRAG's suggestion that the IASB clearly define the concept of "reasonable time" for the purchase of an equivalent volume of electricity, thus providing more precise and consistent guidance for entities in the application of these criteria.

**Question 3—Proposed hedge accounting requirements**

Paragraphs 6.10.4–6.10.6 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 specified criteria are met and permit the hedged item to be measured using the same volume assumptions as those used for measuring the hedging instrument.

Do you agree with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

ICAC's Response

In general terms, the ICAC supports the approach proposed in paragraphs 6.10.4 to 6.10.6 allowing the designation of a variable nominal volume as hedged items.





#### Question 4—Proposed disclosure requirements

Paragraphs 42T–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:

- (a) the entity's financial performance; and
- (b) the amount, timing and uncertainty of the entity's future cash flows.

Do you agree with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

#### Questions to Constituents

- Question 4.1: Do you see a need for the additional disclosure related to the contracts in scope of the ED in case where such contracts are measured at fair value through profit or loss or are designated in the cash flow relationship or do you deem that the current disclosure requirements in IFRS 7 and IFRS 13 are sufficient?

#### ICAC's Response

EFRAG indicates in its response its disagreement with the disclosure requirements should apply to all renewable electricity contracts that meet the characteristics of paragraph 6.10.1.

From our perspective, including homogeneous information for contracts that have the same characteristics even if their accounting reflection is not the same, may be useful for users of financial statements. To have the information collected in the same way and thus be able to see more clearly the impact of different accounting treatments on an entity's financial statements.

We agree with EFRAG in the clarifications noted in paragraphs 42U and 42V (a) that this information may fit better in the sustainability report. Furthermore, as noted in the previous





paragraph, if information relating to contracts that meet the characteristics of paragraph 6.10.1 is disclosed, this would be considered sufficient for users of financial information to be aware of its effects.

- Question 4.2: Do disclosures required for contracts for renewable electricity that qualify for own purposes strike the right cost-benefit balance between users' needs and preparers' costs for obtaining such information?

#### ICAC's Response

We agree with paragraph BC49 of the Basis for Conclusions indicated by the IASB, understanding that an entity to sign a contract of this type, is aware of the terms and conditions of the same as well as the average market prices, so providing this information in the financial statements would not involve an additional cost.

<b>Question 5—Proposed disclosure requirements for subsidiaries without public accountability</b>
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Paragraphs 67A–67C of the proposed amendments to the forthcoming IFRS 19 Subsidiaries without Public Accountability: Disclosures would require an eligible subsidiary to disclose information about its contracts for renewable electricity with specified characteristics.
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Do you agree with these proposals? Why or why not?
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If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?
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#### ICAC's Response

We agree with EFRAG that the standard has not yet been endorsed by the EU.

Furthermore, we also agree with EFRAG in relation to the comment regarding the proposed paragraph 42W of IFRS 7 to also apply to entities within the scope of IFRS 19.







#### Question 6—Transition requirements

The IASB proposes to require an entity to apply:

- (a) the amendments to the own-use requirements in IFRS 9 using a modified retrospective approach; and
- (b) the amendments to the hedge accounting requirements prospectively.

Early application of the proposed amendments would be permitted from the date the amendments were issued.

Do you agree with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

#### ICAC's Response

The ICAC supports the suggestions made by EFRAG in relation to the disclosure requirements.

In relation to paragraph 2.5 of the IFRS, we agree with EFRAG to include a reference to contracts designated at fair value through profit or loss, since even if the designation is irrevocable at the beginning of the contract, the entities that have done so have the possibility of evaluating the option for their own use.

With regard to the application of paragraphs 6.10.4-6.10.6, establishing a time horizon for those designations prior to the date on which the amendments are applied for the first time seems to us to be consistent.

#### Question 7—Effective date

Subject to feedback on the proposals in this Exposure Draft, the IASB aims to issue the amendments in the fourth quarter of 2024. The IASB has not proposed an effective date





before obtaining input about the time necessary to apply the amendments.

In your view, would an effective date of annual reporting periods beginning on or after 1 January 2025 be appropriate and provide enough time to prepare to apply the proposed amendments? Why or why not?

If you disagree, what effective date would you suggest instead and why?

#### ICAC's Response

Considering the high volume of such contracts being entered into and taking into account that further growth is expected, early implementation, i.e. in 2025 would provide users of financial information with a better understanding and analysis of this type of contract.

