International Acccounting Standards Board (IASB)
Dr Andreas Barckow, Chair
30 Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

5 August 2024

Dear Dr Barckow,

Re: ED/2024/3 Contracts for Renewable Electricity

BusinessEurope welcomes the opportunity to comment on the Exposure Draft "Contracts for Renewable Electricity".

We highly appreciate that the IASB has taken action at an admirable pace to resolve the issue of accounting for power purchase agreements. We believe that the Board has taken the right direction and has issued a very good proposal.

We agree in general with the IASB's proposals regarding the ringfencing of the applicability of the proposed amends and suggest some refinement to the criteria set out in the ED, especially with regard to the terminology used, e.g. "renewable electricity" and "pay-as-produced features".

We disagree with the disclosure requirements, as we think that the proposals exceed the scope of financial reporting. We also think that additional disclosures should be limited to contracts not measured at fair value. To align the disclosure requirements with similar transactions falling under different standards (e.g. IFRS 16), we ask the Board to limit additional disclosures to expected future cash flows of these contracts.

Please find our detailed comments in the Appendix to this letter.

Yours sincerely,

Erik Berggren
Senior Adviser

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?

We appreciate the IASB's proposed amendments and agree in general with the scope of the proposed amendments.

We note that the amendments (ED.6.10.1(b)) require that the contract must expose "the purchaser to substantially all the volume risk under the contract through 'pay-as-produced' features" whereby the volume risk is defined as "the risk that the volume of electricity produced does not align with the purchaser's demand for electricity at the time of production". This may be interpreted in two different ways:

- substantially all of the electricity under the contract must be subject to the risk of being unused by the purchaser, or

- the risk is based on substantially all of the volume of the production facility specified under the contract.

Since the latter is not often the case and would likely be classified as a lease in accordance with IFRS 16, we suggest that the Board clarifies that the volume risk refers to the portion of electricity defined in the contract.

Further, we suggest removing the term "pay-as-produced" feature, since that term is not defined, and many contracts include features like "pay-as-forecasted" or "pay as nominated" or contain cap, floor or collar features with regard to the volume of electricity delivered. All these types of contracts should be in the scope of the proposed amendments.

We note that some types of contracts specify that the amount of electricity to be delivered is defined on a "day-ahead-forecast"-basis. Hence, between the point in time of the forecast and the time of delivery, the amount is fixed and thus the nature-dependency ceases. To ensure that these types of contracts remain within the scope of the proposed amendment, we ask the Board to clarify (e.g. in the basis for conclusion) that these mechanics still expose the purchaser to a nature-dependent volume risk. In addition, we note that some contracts contain substitution mechanisms in case the production facility is not able to operate (e.g. for maintenance). Since the amount of electricity to be delivered is still subject to the nature-dependent forecasts, such clauses should not prevent an entity from applying the proposed amendments. We therefore suggest to refer to "volume of electricity to be delivered" instead of the "volume of electricity produced".

We also suggest removing the term “renewable electricity” from the proposed amendments and instead rely on the description of sources (e.g. wind, solar, water). Some members have raised concerns regarding the scope of the amendments being too narrow. They argue that the criteria of PPAs will be hard to meet in some cases, while the economics are identical to other contracts meeting the criteria. Consequently, these members suggest exempting all PPAs that were entered into primarily for ESG-reasons from the scope of IFRS 9.

Question 2 – Proposed ‘own-use’ requirements 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. 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?

In general, we agree with the idea to limit the applicability of the proposed amendments to contracts that include necessary sales of electricity while entities remain in a net purchaser position and do not seek profit from short term sales. However, we suggest some refinement to the wording used in section 6.10.3.

To be in the scope of the amendments, entities shall consider the purpose, design and the structure of the contact. For this assessment an entity shall use reasonable and supportable information available at the reporting date about expected changes in the entity’s purchase or usage requirements for a period not shorter than 12 months after the reporting date.

The reference to the purpose, design and structure leaves room for interpretation and thus, diversity in practice. We are concerned that under a narrow interpretation, contracts that in general would have probable sales of electricity would be viewed to not have a “purpose, design and structure” allowing the application of the proposed amendments. Given that the criteria set out in ED.6.10.1 and ED.6.10.3(b) already ringfence the contracts, we wonder whether a replacement of ED6.10.3(a) with a requirement to assess the criteria in ED.6.10.3(b) based on supportable information would already suffice.

We note that such information is usually derived from the operating budget of the reporting entity. These budgets however, while usually covering a period of twelve months, are not approved on the reporting date and therefore would technically be shorter than twelve months. We therefore suggest to the Board to refer to the latest respective planning of the reporting entity and/or to set the minimum period below twelve months, e.g. six months, or to clarify that if such planning may be extrapolated just like for periods longer than twelve months. This could also be explained in the basis for conclusion.

We disagree with the criteria of ED.6.10.3(b)(ii) regarding the price of the sale. Entities may enter into contracts where they sell unused energy at pre-agreed price formulas (e.g., based on a day-ahead forecast). We believe that such an agreement should not prevent an entity to account for such a contract under the own-use exemption.

We agree with the criteria set out in ED.6.10.3(b)(iii) for an entity to be a net purchaser and to repurchase the amounts sold out of these contracts to the spot market. However, we strongly suggest removing the example of one month as it might be interpreted too narrowly. We believe that a reference to an entity's operating cycle would be more useful as it would capture the normal seasonality of an entity's business model.

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?

We agree with the Board's proposals regarding the hedge accounting requirements. Allowing for variable nominal amounts to be designated as a hedged item fits well with the purpose of the economic hedging efforts of companies, both for sellers and purchasers of electricity.

With regard to the highly probable criterion for purchasers, we suggest that the Board further clarifies how this assessment shall be undertaken, especially for contracts with long durations. As the criterion is removed for the seller, we think that a symmetrical removal for the purchaser side would best accommodate the intention of the proposed amendments.

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?

We note that the proposed disclosure requirement would apply to all contracts for renewable electricity as defined by the ED regardless of whether or not they are measured at fair value. However, we do not believe that the proposed disclosures are appropriate for contracts measured at fair value.

While we agree with the proposed disclosures on the terms and conditions, we question the usefulness of the disclosure requirements as set out in ED.42T(b)(ii). For the financial statements, we believe that the volumes of electricity are less relevant than the expected cash flows from such contracts. While we note that the paragraph could be read as to referring to the financial volume as well, the proposed requirements in ED.42V(b)-(d) indicate that the non-financial volume, i.e. the units of electricity (e.g. MWh), are to be disclosed.

We disagree with the disclosure requirements proposed in ED.42U and ED.42V as we do not see such information to be useful. For example, the share of renewable electricity to the overall electricity purchased by the entity does not seem to be well suited to the financial report but would be better accommodated within sustainability disclosures.

In addition, we note that for other own-use-contracts, such information is not required. Therefore, we recommend restricting the disclosure requirements to the expected cash flows from contracts in the scope of the amendments. This would be comparable to transactions classified as leases containing variable lease payments.

Question 5 – Proposed disclosure requirements for subsidiaries without public accountability 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. 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?

We have no specific comments to Question 5 but refer to our other answers instead.

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?

We agree with the Board’s proposal regarding the transition requirements.

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

We believe that the amendments should be applicable as soon as possible. Thus, we agree with allowing for an early application of the amendments.