Consultation on IASB Exposure Draft - Contracts for Renewable Electricity (Proposed amendments to IFRS 9 and IFRS 7)

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<tr><th>No.</th><th>Questions / Relevant Excerpt</th><th>Concerns / Recommendations / Your Comments
(please provide detailed rationale and suggested alternatives where appropriate)</th></tr>
<tr><td colspan="3">Question 1—Scope of the proposed amendments</td></tr>
<tr><td>1.</td><td>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?</td><td>We appreciate IASB's efforts in addressing stakeholder's concern and forming a narrow-scope amendment to IFRS 9 for the power purchase agreement. However, we do not agree it is the best way to deal with hedge accounting issue for the PPA arrangement.

Given the carbon net-zero strategy, there is more and more demand for these types of arrangements. We would appreciate it if the IASB could consider the implication of those related to other types of forward purchase agreements not separately discussed here (as paragraph 6.10.1 (a) & (b) focuses on the volume and volume risk. However, there may be other arrangement that the volatility arises from other risk, such as variable fee arrangement, variable days, etc.).

In terms of hedge accounting, we understand that the update is for IFRS 9. However, for some preparers, in particular the banks, IAS 39 hedge accounting is still in use before the DRM project is finalised. We suggest IASB to consider making similar amendment to IAS 39 in this regard.</td></tr>
<tr><td colspan="3">Question 2—Proposed 'own-use' requirements</td></tr>
<tr><td>2.</td><td>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?</td><td>We have concerns over whether paragraph 6.10.3 should remain under the IFRS 9 hedge accounting section or be moved to section 2, given for some preparers, especially banks, have not yet adopted IFRS 9 hedge accounting. We suggest IASB reconsider the location of paragraphs 6.10.1, 6.10.2 and 6.10.3, which set out the background for the amendment, or provide equivalent guidance for IAS 39.

Furthermore, we have the following considerations in terms of sections 6.10.1 and 6.10.3:

1) The application of paragraph 2.4 requires continuous assessment, whereas 6.10.3 only requires the assessment at inception of the contract and at each reporting date. It is not clear whether a 2.4 assessment should still apply in between reporting periods.

2) Paragraph 6.10.3(b)(iii) states that "the entity expects to purchase at least an equivalent volume of electricity within a reasonable time (for example, one month) after the sale". It is not clear whether the criterion for reasonable timeframe will be too be restrictive to address the issues faced and could create additional P&L volatility than applying paragraph 2.4.</td></tr>
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		3) Although paragraph 6.10.1 provides criteria for contracts to fall within the scope of section 6.10, it would be helpful if the IASB could clarify how to identify “the contract” to review, particularly for arrangements that are “linked” (such as with other supply agreements, or sell back or on-sale arrangements, etc.). 4) For the criteria under paragraph 6.10.3 (b)(ii), could there be clarification on the term “timing or price”? Specifically, if an entity can affect the price but not timing, does that still align with the entity’s expected usage requirements? Should it be “<u>either</u> the timing or the price” or is timing irrelevant if electricity cannot be stored by entities other than those in the business of storage?
Question 3—Proposed hedge accounting requirements		
3.	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?	Section 6.10.4 appears to require that the designation approach (when a contract for renewable electricity is used as a hedging instrument) should follow a variable nominal volume model. This differs from the existing requirement that the component be a specified part of the amount of an item, such as the first xxx KWH energy purchase in the coming September, to address the highly probable issue. It may be more helpful to preparers if the IASB considers this model in a broader sense to accommodate more general cash flow hedging relationship (e.g., other types of all-in-one hedges where the volume may fluctuate from period to period). Although section 6.10.5 intends to address the highly probable exception, it is not clear whether it represents a comprehensive solution. It does not necessarily mean that the hedge accounting criteria will be eased, since there could still be ineffectiveness arising from hypo valuation, timing difference, and the switching of the measurement basis of the derivative contract (due to the application of section 6.10.3 for the assessment of own-use at each reporting period).
Question 4—Proposed disclosure requirements		

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4.	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?	While we understand the purpose is to provide transparency, we disagree with the proposed disclosure requirement, in particular to the fair value related disclosure. It is unclear whether the fair value of contracts at the reporting date refers to a prospective disclosure of the current market value, or a retrospective disclosure of the value at acquisition / origination. Besides, the fair value of these arrangements can be very difficult to be measured given the significant uncertainty arising from the nature-dependent, volume risk adjusted characteristics. Moreover, the immateriality of certain items does not necessarily imply that aggregation will provide meaningful information to stakeholders. These immaterial items may have different terms and conditions, making them not comparable on an aggregate basis. Furthermore, as mentioned in the response to Question 2, the fact that the amendment requires an assessment each period still means the measurement basis can switch from period to period. There is ambiguity on the period-to-period disclosure in this regard given the different disclosure requirement for contracts for renewable electricity measured at FVTPL and those that are not. In the end, the disclosure requirement should be considered together with other ESG related disclosure proposed by IASB/ISSB.
Question 5—Proposed disclosure requirements for subsidiaries without public accountability		
5.	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?	N/A
Question 6—Transition requirements		
6.	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.	The proposal requires that the amendment to the own-use criteria in IFRS 9 is applied using a modified retrospective approach, while the hedge accounting requirement is to be applied only prospectively.

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	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?	Reading across (a) and (b), there arises a scenario involving a specific contract that is initially accounted for as a derivative (as it did not qualify for the own-use criteria under the original IFRS 9) but would qualify under the new amendment. According to proposal (a), for retrospective application, this instrument will no longer be treated as a derivative contract (since it fulfills the own-use criteria in the new amendment), and retained earnings will be adjusted upon transition. However, under proposal (b), for prospective adjustment to the hedging relationship, this instrument remains a derivative in a qualified hedging relationship up to the transition date (at the point it becomes an off-balance-sheet exposure), and the OCI CFH reserve and retained earnings (for any recycled portion) will not be adjusted. Proposals (a) and (b) seems to contradict with each other on the handling of an existing hedging relationship, and no guidance has been provided. There may be more complexity considering the contract for renewable electricity may flip from one measurement basis to the other in accordance with 6.10.3 (see response to question 2). We also have concerns about the proposed timeline. The proposed effective date is set for annual reporting periods beginning on or after 1 January 2025, with the final standard to be issued in Q4 2024. Preparers may face difficulties in conducting an impact assessment for FY2024 accounts disclosures and reflecting such changes (if any) in the first interim financial statements of 2025 (e.g., Q1 2025).
Question 7—Effective date		
7.	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?	Please see response to question 6.