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Mr Andreas Barckow, Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

1 August 2024
602/579

Re.: IASB Exposure Draft (ED)/2024/3 – Contracts for Renewable Electricity – Proposed amendments to IFRS 9 and IFRS 7

Dear Mr Barckow

The IDW (Institut der Wirtschaftsprüfer in Deutschland e.V.)[1] is pleased to comment on the International Accounting Standards Board's IFRS Accounting Standard Exposure Draft (ED)/2024/3 *"Contracts for Renewable Electricity – Proposed amendments to IFRS 9 and IFRS 7".*

We welcome the fact that, in publishing this ED, the IASB has developed a quick response to stakeholder concerns and requests to clarify in a timely manner application issues related to contracts for electricity from nature-dependent sources, which have become increasingly important recently.

While we agree in principle with most of the proposed amendments to IFRS 9, we disagree with the scope and extent of the proposed disclosure requirements under IFRS 7 and therefore urgently call on the Board to make further changes to the proposals.

We would like to comment on the specific questions of the ED as follows:

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[1] The IDW is a voluntary membership organisation representing the interests of the profession of public auditors in Germany and counts over 79 % of this profession as members.

GESCHÄFTSFÜHRENDER VORSTAND:
Melanie Sack, WP StB, Sprecherin des Vorstands;
Dr. Torsten Moser, WP;
Dr. Daniel P. Siegel, WP StB

Amtsgericht Düsseldorf
Vereinsregister VR 3850

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?

The IDW acknowledges that the proposed amendments address the majority of stakeholders' concerns with the accounting treatment of such contracts.

With reference to the specific wording of the proposals, we suggest the Board consider whether it is appropriate or adequate to use the term "renewable", because the definition of renewable electricity is not harmonised. Renewable electricity is often referred to any electricity to which Renewable Energy Certificates (RECs) are attached. As RECs are often traded separately from the original energy production and the accounting of RECs is not being addressed in this project, we would recommend deleting the term "renewable" in the proposed amendments.[2] As the proposed amendments to **paragraph 6.10.1(a) of IFRS 9** require the production of electricity to be nature-dependent, we do not see a potential threat in the form of unintentionally expanding the scope, if the term "renewable" were to be deleted.

In this context, we recommend clarifying the meaning of "nature-dependent" in the context of paragraph BC9 to help users to understand the difference between contracts for renewable electricity that are within scope of the proposed amendments and those to which the proposed amendments do not apply. To our understanding, electricity is nature-dependent if there is a direct connection between the nature sourced (e.g., sun or wind) for the electricity production. Electricity production fluctuates according to hours of sunshine, windspeeds etc. and therefore, amounts of electricity actually produced in a given period cannot be directly controlled by humans.

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[2] However, for the sake of simplicity, we would like to continue using the term "renewable" in this comment letter.

The proposed scope limits the amendments to contracts where *substantially all* of the volume risk is transferred through "pay-as-produced" features (we refer to **paragraph 6.10.1(b) of IFRS 9**). In practice, a wide variety of contracts include "pay-as-forecasted" or "pay-as-nominated" features and thus also transfer substantially all volume risk. Whilst we believe the IASB intended to include these types of contracts, we are concerned that the wording of the proposed amendments implies they may not all be addressed.

Furthermore, the term "substantially all" is already used in connection with the derecognition of assets in IFRSs where it sets a very high threshold. Power Purchase Agreements (PPAs) can contain caps or floors which lead to a transfer of some but possibly not necessarily "substantially all" of the volume risk. Similar issues can occur with the contracts previously mentioned. It could be argued that it is inappropriate to exclude such contracts for electricity, if they are subject to the same issues.

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?

We generally agree with the proposed amendments.

However, the current placement of the proposed own-use requirements in the ED is somewhat misleading, since Chapter 6 of IFRS 9 generally relates to hedge accounting. We therefore support the Board's intention to reconsider the placement of the new paragraphs in IFRS 9 once the amendments are finalised (we refer to footnote 1 in the ED). In particular, the proposed requirements on the scope and application of the own use exemption should be located next to the anchor requirement in paragraph 2.4 of IFRS 9 (e.g. after the extant paragraph 2.7), while only the hedge accounting requirements should remain in Chapter 6.

As already mentioned in our answer to Question 1, PPAs are often entered into in order to receive the corresponding Renewable Energy Certificates (RECs).

Those RECs are usually purchased for own-use purposes even when the underlying electricity will be sold. Therefore, we recommend the IASB clarify that the assessment of the purpose, design and structure of the contract under the proposed **paragraph 6.10.3(a)** of IFRS 9 should be based only on the volume of electricity expected to be delivered, without consideration of the corresponding RECs.

We note that the proposed amendments refer to *“entity’s expected purchase or usage requirements”*. In our view, it might be helpful to clarify the level at which the assessment needs to be performed (i.e., at the level of the consolidated entity, at the level of subsidiary that entered into the PPA or at the level of plant(s) to which the electricity is delivered).

In connection with the design of contracts, we would like the IASB to further clarify whether the requirements in paragraph 2.4 generally apply to contracts to buy or sell renewable electricity when the contracting parties (i.e. the producer and purchaser of the electricity) are located far apart such that the transport of the electricity is not physically/technically feasible. This is the case, for example, if the contracting parties are in different jurisdictions whose electricity grids are not interconnected.

Proposed **paragraph 6.10.4(b)(i)** of IFRS 9 requires sales to arise from *“mismatches between the renewable electricity delivered and the entity’s electricity demand at the time of delivery”*. In some markets, electricity is delivered and consumed in short time intervals of 15 minutes or even less, although this varies by jurisdiction. We would highly appreciate the IASB publishing clear guidance regarding the level and granularity of the required assessments. Adding an illustrative example could be useful to both help entities understand the assessment and support consistent application.

Proposed **paragraph 6.10.3(b)(ii)** of IFRS 9 only refers to the design and operation of the market. However, entities could use storage technology to defer sales and therefore, in practice, ensure they have the ability to determine the timing of the sale. Therefore, we suggest, this assessment also ought to consider the entity’s specific facts and circumstances rather than just external market factors.

From a conceptual point of view, we support the IASB's considerations regarding the criterion formulated in **paragraph 10.6.3(b)(iii)** of IFRS 9. However, we are concerned that, in practice, considerable discussion will be needed regarding the reference to a “reasonable time” for the period in which the “buy-back” of previously unused electricity sold on the market should take place. We believe

that, in view of entity-specific production cycles and seasonal supply and demand patterns, entities may regularly want to claim a significantly longer period than one month. In light of this, we believe it would be useful for the Board to carry out further investigation including outreach activities in order to formulate the criterion in such a way that it is both appropriate and verifiable, in particular in respect of the context in which this criterion is to be assessed.

Furthermore, entities may enter into more than one PPA to purchase electricity. We recommend clarifying that purchases from other PPAs could qualify as purchases in line with paragraph 6.10.3(b)(iii) of IFRS 9, but this has to be determined. In this context, we suggest specific reference be made to purchases from the spot- or forward market. Such purchases would have to fulfil the own-use requirements to qualify as purchases under paragraph 6.10.3(b)(iii) of this ED. Besides the general clarification suggested above, we also suggest the Board provide additional clarification of the level at which assessment is made in respect of purchases after sales, so that it is clear whether the assessment is made at group level or only at the level of the individual entity that is party to the PPA contract.

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?

The IDW is generally supportive of the proposals in paragraphs 6.10.4 to 6.10.6 of IFRS 9 as they enable entities with contracts for renewable electricity that require net settlement to achieve a similar accounting outcome as those entities with economically similar physically settled contracts will achieve under own-use requirements.

Overall, it would be helpful to further elaborate on the time intervals and level at which, the assessments must be performed (we refer to our answer to Question 2 regarding this issue). Further, we suggest the IASB also provide guidance

on, e.g., the time intervals for, and the granularity of the assessment of an existing economic relationship between the hedged item and the hedging instrument in line with paragraph 6.4.1 of IFRS 9.

According to proposed **paragraph 6.10.4(b)** of IFRS 9 an entity is required to compare the variable volume of forecast electricity transactions with the future electricity need that is deemed highly probable. PPAs are usually measured using probabilities of 50% (so-called P50 Values). We suggest the IASB clarify whether a highly probable future electricity need should exceed those values commonly used for measuring the fair value of the PPA contract (P50 Values) or the maximum possible amount that could result from the contract for renewable electricity. However, the latter seems to be a rather challenging assumption that is likely misaligned with how contracts are managed in practice. In our opinion, clarification and an example would be helpful in understanding the proposed requirement.

Furthermore, additional guidance regarding a purchaser's assessment of the "highly probable" criterion would be helpful, given that PPAs usually have a duration of 10 or more years. In addition, we suggest rewording **paragraph 6.10.5** of IFRS 9 to clarify that an assessment of "highly probable" is not needed for the seller, because the sales are, by nature, highly probable.

Additional guidance would also be helpful regarding the distinction between volume assumptions which should be those used for measuring the hedging instrument and timing differences which could lead to ineffectiveness. For example, an entity may need constant electricity consumption throughout during the whole day and night as a hedged item and use a "virtual PPA" for renewable energy from a solar plant which can only produce throughout the hours of daylight. Due to intra-daily differences in spot prices, the timing differences could lead to ineffectiveness, even if the total daily volume of the "virtual PPA" was used. We propose the Board clarify whether such differences should be eliminated using the volume and corresponding timing assumption of the hedging instrument or if such timing differences should be recognised as ineffectiveness.

Finally, we would like to point out that defining the hedged risk item by reference to a characteristic of the hedging instrument represents a deviation from the general principle of hedge accounting under IFRS 9. Notwithstanding that, in light of its unique features, we believe this is a justifiable approach to hedge accounting for this particular type of contract, the IASB is introducing a new concept that may raise application questions, in particular with regard to hedge documentation and related effectiveness testing. Therefore, we encourage the

Board to provide a comprehensive illustrative example for this narrow set of hedging relationships.

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 concur that contracts for renewable electricity should generally be appropriately presented in IFRS financial statements. However, we do not agree with the scope and extent of the proposed disclosure requirements.

According to the proposals in this ED, all contracts that have the characteristics in paragraph 6.10.1 of IFRS 9 trigger disclosure requirements. This could also include PPAs are accounted for under IFRS 10 or IFRS 16, as such contracts could also have those characteristics even if they are not within the scope of the amendment. In paragraph BC42 of this ED the IASB acknowledges that other IFRS Accounting Standards might apply for contracts for renewable electricity. We strongly suggest the Board limit the scope to those contracts that are within scope of the proposed amendments by changing the wording in paragraphs 42T to 42U of IFRS 7 from *“contracts for renewable electricity (that have the characteristics in paragraph 6.10.1 of IFRS 9)”* into *“contracts for renewable electricity to which the requirements of 6.10.1-6 of IFRS 9 were applied”*.

As such contracts are neither financial instruments by definition nor do they fall within the scope of IFRS 9 after application of the proposed requirements, we suggest locating the new disclosure requirements under paragraph 5 of IFRS 7 in order to bring the respective contracts within the scope of the disclosure requirements of IFRS 7.

Proposed paragraph 42W of IFRS 7 clarifies that an entity would not need to duplicate information that is already disclosed in accordance with other IFRS Accounting Standards. Paragraph BC42 of the ED also states that the proposed

amendments would not require an entity to duplicate information. In addition, paragraph BC42 also refers to disclosure requirements that may be consistent with the sustainability-related information about contracts for renewable electricity already disclosed by entities. We also recommend the IASB clarify whether information needs to be disclosed twice if it is already disclosed in a sustainability report (e.g. ESRS 1-5 already requires disclosure of the total volume of electricity purchased). Moreover, we encourage the IASB to consider, as part of further outreach activities with users of financial statements, whether disclosures that have only an indirect effect on an entity's financial performance (e.g. volumes purchased or remaining contract duration) are deemed useful if provided within the financial statements rather than in a sustainability report.

In our view, the requirements in proposed paragraphs 42T to 42U of IFRS 7 would lead to a comprehensive number of disclosures that are not related to key aspects of the amendments. Therefore, we would support the IASB focussing the disclosures on the following main aspects of the amendments:

1) How has an entity determined that it fulfils the requirements for the own use exemption and what assumptions and judgements have been made?
2) In relation to hedge accounting, what assumptions has the entity made in estimating the future purchase volume compared with the estimated volume inherent in the contract?

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?

The IDW agrees with the IASB's decision to require an entity applying IFRS 19 to disclose the same information for its contracts for renewable electricity as those entities that apply the proposed amendments to IFRS 7.

In this context, however, we refer to our answer to Question 4.

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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 are supportive of the proposal not to restate prior periods.

The IDW generally agrees with the proposed amendments using a modified retrospective approach for the own-use requirements of IFRS 9. However, we do not support the proposed additional guidance in paragraph 7.2.51 of IFRS 9. If an entity previously recognised a PPA as a derivative (and accounted for it at fair value through profit or loss), which would no longer be recognised after the amendment, retrospective application should result in the opening retained earnings being restated to zero as at 1 January 202X. However, the reference made in paragraph 7.2.51 of IFRS 9 to the date when the amendments are issued may give rise to a situation where this is not the case. Hence, we suggest deleting paragraph 7.2.51 of IFRS 9 so that only the general requirements for retrospective application in paragraph 7.2.50 of IFRS 9 apply.

Additionally, we would suggest allowing entities to reassess the requirements of paragraph 2.5 of IFRS 9 when the proposed amendments are initially applied.

Furthermore, we have some concerns regarding the prospective application of the hedge accounting requirements. If the proposed amendments become applicable and an already existing PPA is designated as a hedging instrument for the purposes of cash flow hedge accounting, this PPA will probably have a non-zero fair value at the time of designation. Consequently, applying the hypothetical derivative method, which requires comparison of the actual fair value of the hedging instrument at the time of designation with a hypothetical derivative that has a fair value of zero at the time the hedge is designated inevitably leads to hedge ineffectiveness. As PPAs are generally contracted for a long-term electricity supply, ineffectiveness will arise for all subsequent periods. We are aware that

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retrospective designation of hedging relationships is normally strictly prohibited. However, in the absence of the proposed amendments, as entities were not able to apply hedge accounting in prior periods, we encourage the IASB to allow retrospective application in this particular case to prevent ineffectiveness resulting solely from the fact that hedge accounting was not permitted in prior periods.

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?

The proposed amendments need to be endorsed to be effective in some jurisdictions (e.g. the EU). As the endorsement process requires time, we would suggest an effective date for annual reporting periods beginning on or after 1 January 2026 with early application permitted. This would give endorsement bodies sufficient time to complete their processes and it may avoid inconsistencies due to different dates for initial application that, besides limited comparability, may lead to further application issues (in this context see our comment on paragraph 7.2.51 of IFRS 9 under Question 6).

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely,

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