

29 July 2024

Andreas Barckow  
Chair  
International Accounting Standards Board

Columbus Building  
7 Westferry Circus  
Canary Wharf  
London, E14 4HD  
United Kingdom

Dear Dr Barckow

## **Exposure Draft *Contracts for Renewable Electricity, Proposed amendments to IFRS 9 and IFRS 7***

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's Exposure Draft *Contracts for Renewable Electricity, Proposed amendments to IFRS 9 and IFRS 7*.

We support the IASB's efforts to respond to concerns about the application of the own use requirements in IFRS 9 to power purchase agreements (PPAs) over renewable electricity and the difficulty in achieving hedge accounting for virtual power purchase agreements (VPPAs).

However, we believe the scope of the proposed amendments is too narrow and should not be limited to contracts in which the purchaser is exposed to substantially all volume risk. In practice, purchasers may enter into contracts that limit their exposure to volume variability in exchange for an additional fee. When this fee is variable, although there is little or no physical volume risk under the contract, the pricing risk from variability in volume from the generation source remains with the purchaser because the greater the variability in the generation source, the higher the fee. In addition, whether the purchaser retains the full exposure to volume variability or has chosen to reduce volume risk in exchange for an additional fee, the possibility remains that the purchaser will need to sell electricity. We encourage the IASB to amend the proposed requirements in IFRS 9:6.10.1 and 6.10.3 to cover all contracts for renewable energy in which the sale of electricity by the purchaser reflects the fact that electricity that cannot be used precisely when delivered must be sold because it cannot be stored.

We support the proposed amendments to the hedge accounting requirements to permit, in limited circumstances, hedge accounting with a hedging instrument that has a variable notional. This would allow entities that enter into VPPAs to apply cash flow hedge accounting for their spot purchases and sales of electricity, thereby allowing an accounting treatment that reflects the entity's risk management objective. We believe that performing the required prospective hedge effectiveness assessment and measuring hedge ineffectiveness will be particularly challenging for forecast electricity purchases. We have proposed a number of amendments and suggestions for clarifications and illustrative examples to aid the understanding and application of hedge accounting in this area.

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Finally, we believe that the scope of contracts to which the proposed disclosure requirements would apply is too broad and the level of information requested too detailed. We believe that the disclosure requirements should focus on the application of the two key changes to the accounting requirements, namely, the entity's judgement in assessing whether a contract to buy/sell renewable electricity meets the own use requirements and, and in respect of hedge accounting, the judgements made to assess whether the hedge of a forecast transaction with a derivative with a variable notional is highly probable.

Our detailed responses to the questions in the ED are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'V Poole', with a stylized flourish at the end.

**Veronica Poole**  
Global IFRS and Corporate Reporting Leader

## 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?

Although the proposed scope of the amendments encompasses a substantial portion of the contracts for renewable electricity for which stakeholders have expressed concerns, we believe that the scope is too narrow and should not be limited to contracts in which the purchaser is exposed to substantially all volume risk.

In practice, purchasers who do not want all the volume risk associated with the renewable electricity source will enter into contracts that include caps and floors or that fix the volume of electricity delivered for each time interval over the term of the contract (e.g. a baseload contract), such that the supplier (or an intermediary) retains some or all of the volume risk. The additional fee that the purchaser typically pays for such contracts may be fixed upfront or variable over the term of the contract. This fee is sometimes referred to as a firming fee. When the firming fee is a variable fee, although there is little or no physical volume risk under the contract, the pricing risk from variability in volume from the generation source remains with the purchaser because the greater the variability in the generation source, the higher the fee.

In addition, we note that whether the purchaser retains the full exposure to volume variability or has chosen to reduce volume risk in exchange for an additional fee, the possibility remains that the purchaser will need to sell electricity. Indeed, because in most cases electricity cannot be stored economically, if it cannot be used by the purchaser at the precise time it is delivered, a sale in the market will take place. We believe this is the key characteristic that should be used to define the scope of the amendments for the own use requirements. In our view, both variable volume contracts and contracts in which the volume risk of the purchaser is reduced should be captured by the amendments since they share this key characteristic. However, as currently drafted, it appears that only the former may be eligible for own use requirements.

We encourage the IASB to amend the proposed requirements in IFRS 9:6.10.1 and 6.10.3 to cover all contracts for renewable energy in which the sale of electricity by the purchaser reflects the fact that electricity that cannot be used precisely when delivered must be sold because it cannot be stored. This approach is also more likely to accommodate changes in how sellers and buyers share volume risk in the contractual arrangements for buying renewable electricity, in response to the wish of buyers to manage their risk of over-purchasing.

For avoidance of doubt, we do not believe that the changes to be made to IFRS 9:6.10.1 and 6.10.3 should affect the scope of the proposed changes to the hedge accounting requirements. We believe that it is appropriate that hedge accounting may be applied if and only if the hedged item is specified as the variable volume of electricity to which the hedging instrument relates, as proposed in the ED.

## *Drafting suggestions*

The term “contracts for renewable electricity” used in IFRS 9:6.10.1 is intended to capture both physically settled contracts and net settled contracts. Physical contracts result in the delivery of renewable electricity, and therefore, are appropriately described as “contracts for renewable electricity”. However, this is not the case for net settled contracts where renewable electricity is merely a referenced underlying. Since this could give rise to confusion, we suggest referring to the contracts collectively as “contracts referencing renewable electricity”.

### **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 agree with the proposed requirements in IFRS 9:6.10.3.

However, we do not believe it is helpful to use “one month” in IFRS 9:6.10.3(b)(iii) as an example of a reasonable delay between the sale of electricity and the purchase of an equivalent quantity. As noted in the Basis for Conclusions, “reasonable” depends on an entity’s operations. Including a one-month delay as an example may introduce a bright line which would detract from the need to assess the specific facts and circumstances to determine a reasonable time.

Furthermore, should the proposed scope of application of IFRS 9:6.10.3 be expanded as we suggest in our response to Question 1, the term “volume risk” used in IFRS 9:6.10.3(b)(i) should be replaced with “timing risk” with an explanation that timing risk arises from mismatches between the time of delivery of electricity and the time the electricity can be used.

Also, we suggest that IFRS 9:6.10.3(b)(iii) explicitly states that “the entity expects to purchase at least an equivalent volume of electricity in the same market within a reasonable time after sale” in order to clarify that purchases that are in different markets cannot be taken into account in assessing the extent of the entity’s net electricity purchases under a contract.

## *Drafting suggestions*

We acknowledge that footnote 1 of the ED explains that for ease of reading, all the proposed amendments for contracts for renewable electricity have been drafted within Chapter 6 of IFRS 9, including those that relate to the application of IFRS 9:2.4 (i.e. the own use requirements), and that the IASB will consider further the location of those amendments.

When the IASB considers the location of the proposed IFRS 9:6.10.3 on the own use requirements, we suggest that this paragraph should be included either in the scope section of IFRS 9 or in the application guidance accompanying the scope requirements. We do not believe that it would be appropriate to include this paragraph in section 6 of IFRS 9 because this section applies only to contracts in the scope of IFRS 9, whereas the requirements proposed in IFRS 9:6.10.3 would determine whether a contract is in scope of IFRS 9.

Also, the criteria proposed in IFRS 9:6.10.3(b)(ii) only refers to broad market factors and does not consider entity specific factors that are relevant in assessing whether a contract to purchase electricity is for own use purposes. For example, we believe it is relevant to consider whether the entity has the ability to store the electricity it receives rather than selling it. We suggest amending the proposed text as follows: “the design and operation of the market in which the electricity is sold and the entity’s specific facts and circumstances results in the entity being required to sell the electricity that it cannot use and not having the practical ability to determine the timing or price of the sale”. This could be further supplemented with application guidance explaining that if an entity can store unused electricity until it is able to use it but chooses to sell the electricity or if the entity chooses to sell electricity from storage, then the conditions in IFRS 9:6.10.3(b)(ii) would not be met.

**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?

In general, we support the proposals in IFRS 9:6.10.4-6.10.6.

We agree that entities with net settled contracts for renewable electricity should be able to apply hedge accounting to achieve similar reductions in profit or loss volatility as entities with economically similar but physically settled contracts that meet the own use requirements in IFRS 9:6.10.3.

We note that the inability to designate a variable volume of forecast transactions and the resulting hedge ineffectiveness from volume mismatches are the key barriers to the use of contracts for renewable electricity as hedging instruments in IFRS 9. We believe that the proposed amendments to hedge accounting will work as intended when applied to hedges of forecast sales of renewable electricity, allowing an accounting treatment that reflects a seller’s risk management objective.

However, we are concerned the proposals will be considerably more challenging for hedges of forecast purchases of renewable electricity, in particular in terms of the assessment of the eligibility of the hedged item, identification of the hedged item and the measurement of hedge ineffectiveness.

*Eligibility of renewable electricity purchases as hedged items*

The proposed requirement in IFRS 9:6.10.4(b) that the volume of future electricity purchases must be highly probable may prevent hedge accounting if this means that an entity is required to estimate electricity consumption in narrow periods that are far into the future. We do not believe that this should be required. Instead, we suggest that the assessment of the level of electricity consumption that is highly probable should be performed consistently with the proposals in IFRS 9:6.10.3(a) that permit flexibility in estimating future electricity purchases. For example, the assessment of the electricity consumption could be performed on a quarterly basis for electricity purchases to be delivered in the next 12 months and on an annual basis for deliveries beyond 12 months.

Applying the proposals in IFRS 9:6.10.4(b), an entity is required to compare the variable volume of forecast transactions associated with a contract for renewable electricity to a volume of future electricity

purchases that is deemed highly probable. For the purposes of this comparison, an entity would be required to represent the 'variable volume' in the contract as a specific volumetric amount. The conclusion that a hedged item is eligible may be affected by the method used to determine the variable volume. For example, if the maximum possible variable volume<sup>1</sup> under the contract is used, the hedged item is less likely to be eligible compared to when an expected volume is used. If an expected volume is required to be used, further guidance will be needed to indicate how that expected volume should be determined, specifically whether it should reflect a probability weighted basis, most likely basis, volume expected to be exceeded with a probability of say 90 or 50 per cent, or the same volume assumptions used in measuring the hedging instrument (if a specific volume is used). It would be useful to include guidance on the approaches that are acceptable when expressing a variable volume in a specific volumetric amount since this may lead to different hedge accounting outcomes.

We would also recommend that the proposed requirements clarify that the assessment in IFRS 9:6.10.4(b) is a *prospective* assessment performed at a minimum at the beginning of each reporting period. Otherwise, if the volume of electricity purchased in the hedged period is less than the designated amount, it will not be clear whether the hedge should be discontinued in its entirety, or only partly.

### *Identification of the hedged item*

When a variable volume of a forecast transaction is designated as the hedged item, as permitted by IFRS 9:6.10.4, it is not possible to identify when the hedged transaction occurs until the end of the hedged period. For example, an entity, with fixed electricity consumption of 80 MWh per month, may define the hedged item with reference to a three-month period. If at the end of the first month, the variable volume under the renewable electricity contract is 50 MWh, it is not clear how much of the energy consumption of 80 MWh has been hedged. If at the end of the three-month period the total variable volume under the contract is 240 MWh (say 50 MWh in the first month, 80 MWh in the second and 110 MWh in the third), the full 80 MWh consumption in each month will have been hedged, although this could not be determined at the end of the first month without the use of hindsight. As a result, if the entity's reporting date is at the end of the first month it would not be possible to determine the amount that should be reclassified from equity at the reporting date. To address this, for hedging relationships that extend beyond the reporting date, the hedged period should be designated to coincide with the reporting date.

Given that it will never be possible to identify the hedged transaction as it occurs, it would seem reasonable to permit more flexibility than for a standard cash flow hedge of a fixed amount of forecast transactions. For example, it may be appropriate to permit the designation of a proportion of purchases throughout a specified period rather than require the designation of the first purchases in the specified period.

### *Measurement*

We understand that the intention of IFRS 9:6.10.6 is to eliminate the hedge ineffectiveness associated with the variability in volume in contracts for renewable electricity, while still capturing hedge ineffectiveness from other sources. We are supportive of the intention and find the examples of other such sources of effectiveness listed in IFRS 9:BC37 of the ED helpful. However, it would be useful to have further guidance on when such hedge ineffectiveness should be recognised:

- *Hedge ineffectiveness due to timing of electricity purchases vs electricity production* (as noted in IFRS 9:BC37(a)): Following from our comments above in respect of the difficulty in making a detailed estimate of electricity consumption in periods that are far into the future, it would be helpful to

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<sup>1</sup> Assuming that the maximum possible volume is determined by the technological limitations of the production facility rather than the level of the nature dependant source. This assumption gives a maximum possible volume that is constant across periods.

acknowledge that the same difficulties arise when measuring hedge ineffectiveness. The guidance should therefore explicitly acknowledge that the degree of specificity in estimating timing and amount when measuring hedge ineffectiveness should be greater in the near term (e.g. within 12 months after the reporting period, or the entity's normal operating cycle) than in later periods.

- *Hedge ineffectiveness because the volume covered by the renewable electricity contract is in excess of the purchased volume* (as noted in IFRS 9: BC37(b)): It would be helpful to clarify the circumstances when such a mismatch requires a partial de-designation of the hedge, and when it simply gives rise to hedge ineffectiveness. In this respect, as noted earlier, we suggest that it should be clarified that the assessment required in IFRS 9:6.10.4(b) is a prospective assessment performed at a minimum at the beginning of each reporting period, and that effectiveness should not be reassessed in the period in which the variable volume is realised. It would also be useful to clarify that a difference between the variable volume realised in a period and the volume that was expected in that period results in hedge ineffectiveness in the period but does not require the hedge relationship to be rebalanced.
- *Hedge ineffectiveness resulting from basis risk between markets* (as noted in IFRS 9:BC37(c)): It seems clear that this hedge ineffectiveness should be anticipated and captured continuously over the life of the hedge. However, as this is different from the timing of recognition of hedge ineffectiveness discussed in IFRS 9:BC37(a) and (b), an explicit statement to this effect may be helpful.

It would also be helpful to clarify that while the volume assumptions used to measure the hedged item and the hedging instrument are the same (as specified in IFRS 9:6.10.6), differences in timing of the two, i.e. how the volume of each is distributed over the hedged period and associated price differences, may result in hedge ineffectiveness.

### *Illustrative examples*

As the designation of a variable volume of forecast electricity and the assessment and measurement of hedge ineffectiveness will be considerably different from the existing hedge accounting requirements, we believe that comprehensive illustrative examples of hedge accounting should be provided. Such examples could be based on those included in agenda paper 3B of the March 2024 meeting of the IASB.

### **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 observe that IFRS Accounting Standards already contain disclosure requirements that will apply for arrangements in the scope of the amendments, namely in IAS 1 *Presentation of Financial Statements* / IFRS 18 *Presentation and Disclosure in Financial Statements* in respect of significant accounting policies and judgements used in applying those policies, IFRS 13 *Fair Value Measurement* in respect of PPAs that fail the own use requirements and VPPAs and IFRS 7 *Financial Instruments Disclosure* in respect of VPPAs designated as hedging instruments.

Applying the proposals in the ED, all contracts within the scope of IFRS 9:6.10.1 would be subject to the new disclosure requirements irrespective of whether a contract for physical delivery meets the own use exception, or a cash-settled contract, such as VPPAs, is used for hedge accounting. We believe this very wide scope will result in many disclosures that do not address the key aspects of amendments for which users of financial statements should be informed.

We think there are two main areas where the amendments introduce significant changes to the current requirements of IFRS 9 and for which it would be appropriate to add disclosure requirements, but not to the extent proposed in the ED. These are the amendments to the own use requirements and the ability to apply hedge accounting using hedging instruments with a variable notional. We believe the additional disclosure requirements should be limited to the following:

- Firstly, how the entity has concluded that contracts to buy/sell renewable electricity *meet* the own use requirements. Contrary to the proposals in the ED, we do not believe that the disclosure requirements should apply to contracts that have the characteristics described in IFRS 9:6.10.1 but do not meet the own use requirements in IFRS 9:6.10.3. In addition, the disclosure should focus on the assumptions used to conclude that the application of the exception is appropriate, which may include volume-based information on the entity's expected and actual sales of electricity purchased. We do not believe an entity should be required to disclose the fair value of these contracts; we note that an entity is generally not required to disclose the fair value of other executory contracts in IFRS Accounting Standards. We also do not believe that an entity should be required to disclose in its financial statements detailed information comparing the volume and price of renewable electricity purchased compared to its overall electricity purchases; this information is more suited for inclusion in a sustainability statement.
- Secondly, in respect of hedge accounting, the primary focus of the disclosures should be on the assumptions made to estimate the future volume of electricity to be purchased as compared to the estimated volume to be purchased through renewable electricity contracts that meet the requirements in IFRS 9:6.10.1. We believe that this information would be relevant because the hedge of highly probable purchases with variable volume contracts is significantly different from the normal hedge accounting requirements in IFRS 9 and requires significant judgement. We believe this additional information along with the existing hedge accounting disclosure requirements would be sufficient.

We note that IFRS 7:5 currently states that "[t]his IFRS applies to contracts to buy or sell a non-financial item that are within the scope of IFRS 9". As a result, the disclosure requirements proposed in IFRS 7:42T would not apply to contracts that meet the own use requirements because such contracts are non-financial contracts accounted for as executory contracts (and are not in the scope of IFRS 9). However, it is clear from the Basis for Conclusions that the IASB's intention is that the disclosures would apply to contracts that have the characteristics described in proposed IFRS 9:6.10.1 and are outside the scope of IFRS 9. To ensure that this is achieved, IFRS 7:5 will need to be amended.

We agree with the last sentence of IFRS 7:42W which states "[a]n entity also need not duplicate information that is already disclosed in accordance with other IFRS Accounting Standards." However, we note that IFRS 7:BC42 states that "[t]he IASB is also of the view that the information an entity would disclose in accordance with these proposed disclosure requirements could be compatible to sustainability-related information entities already disclose about these contracts." We suggest that IFRS 7:BC42 be amended to make clear that this statement is included to encourage connectivity and to highlight that an entity may be collating this information as part of the preparation of its sustainability reporting. We believe this clarification is important to avoid the implication that including this information in a sustainability report may replace the need to disclose it in the financial statements.



## 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?

Our comments in response to Question 4, with respect to the broad scope and extent of disclosures, apply also to the disclosures proposed for 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?

We are supportive of the proposal not to restate prior periods. However, we are not supportive of the proposed transitional requirements in IFRS 9:7.2.51 and 52.

### IFRS 9:7.2.51

IFRS 9:7.2.51 applies if an entity first apply the amendments “in a reporting period that includes the date the amendments are issued”, which we expect will be in Q4 2024 based on Question 7. IFRS 9:7.2.51 requires an entity to recognise the difference between the previous carrying amount PPA and its carrying amount at the date when the amendments are issued in retained earnings. As illustrated below, we believe this would result in a misstatement of opening retained earnings and profit or loss for the period.

Consider the following example:

The amendments are issued by the IASB on 1 December 2024 and an entity decides to apply the amendments for its annual reporting period ending 31 December 2024. Previously, the entity has measured the PPA as at FVTPL. Applying the amendments, the PPA meets the own use requirements (i.e. it is now an executory contract that is not recognised on the statement of financial position).

The fair value of the PPA is as follows:

Date	Fair value (PPA asset)
1 January 2023	0
31 December 2023	80
1 December 2024	90
31 December 2024	95

We believe that retrospective application without restatement should result in the entity derecognising the PPA on 1 January 2024 (assuming prior period amounts are not restated) with the following entry:

Dr	Retained earnings	80
Cr	Asset	80

This entry eliminates the PPA asset and results in the net gains and losses of zero recognised in opening retained earnings in respect of the PPA. In the annual reporting period ending 31 December 2024, no fair value gains/losses are recognised in profit or loss account as the PPA, following the amendments, is no longer measured as at FVTPL.

However, IFRS 9:7.2.51 appears to require the following adjustment to be recognised:

Dr	Opening retained earnings (carrying amount when the amendments are issued)	90
Cr	Asset	80
Cr	Profit or loss in the period	10

The above appropriately eliminates the PPA asset but results in restated opening retained earnings at 1 January 2024 not being zero. Instead, a net amount of 10 is accumulated in opening retained earnings as of 1 January 2024 which is equal and opposite to the fair value loss recognised in profit or loss in 2024. In effect, the entity reverses from opening retained earnings a fair value loss that has not yet been recognised. From a profit or loss perspective, the entity measures the PPA under its previous accounting policies for the first 11 months of the year and measures the PPA under its new accounting policies for the last month. In our view this does not faithfully reflect a retrospective application and results in opening retained earnings and current period profit or loss being misstated.

We propose that IFRS 9:7.2.51 should be deleted, leaving the general requirements of retrospective application in IFRS 9:7.2.50.

The IASB should consider whether specific guidance should be provided in respect of an entity that applies the amendments in a period that includes the date when the amendments are issued but has already issued interim report (for example, a calendar year-end entity that adopts the amendments for its 2024 annual financial statements, but that has already issued an interim report for the six-month period ended 30 June 2024). It would appear appropriate that when reporting at 30 June 2025, the entity would restate the comparative 2024 period. One way to cater to this situation may be to indicate in IFRS 9:7.2.50 that “an entity is not required to restate prior annual reporting periods” (other references to “prior periods” should then similarly be amended).

## IFRS 9:7.2.52

We generally support the prospective application of amendments to hedge accounting requirements, as this eliminates the ability of an entity to manage earnings through cherry-picking which hedge accounting relationships are applied retrospectively. However, we are concerned about the impact of prospective application in the case of the amendments to hedge accounting proposed in the ED.

When applying the new hedge accounting requirements in the ED, cash flow hedge accounting is applied by designating a derivative, or an embedded derivative in a VPPA, that will have a positive or negative fair value at the date of designation. Applying the hypothetical derivative method, which requires at the date of designation comparing the actual fair value of the derivative or embedded derivative (being the hedging instrument) with a hypothetical (embedded) derivative taken out at the date the hedge relationship is designated and that has a fair value of zero, will result in hedge ineffectiveness. Hedge ineffectiveness will arise because the market price of renewable electricity inherent in the contract will

have changed between the date the contract was entered into and date of designation of the hedging instrument. This may result in significant hedge ineffectiveness for all periods following the designation of the hedge.

Although we acknowledge that there is the risk of cherry-picking hedge accounting relationships if retrospective application is applied, we believe the risk can be somewhat mitigated if entities that choose to apply the new hedge accounting requirements on transition are required to disclose and explain whether only some, but not all, hedge accounting relationships that are eligible to be designated were actually designated on initial application of the amendments.

In addition to eliminating the hedge ineffectiveness inherent to a prospective application of the amendments, as explained above, the retrospective application of hedge accounting in the context of the amendments proposed in the ED appears justified by the fact that the reason why entities did not apply hedge accounting with VPPAs in prior periods was because the hedge accounting requirements could not be applied and so the economic hedge relationship was not eligible for hedge accounting.

#### *Entities applying the hedge accounting requirements of IAS 39*

We note that entities that apply the hedge accounting requirements of IAS 39 (instead of applying the hedge accounting requirements of IFRS 9) would not be able to apply the amendments to hedge accounting proposed in the ED as there are no proposed amendments to IAS 39. Given IFRS Accounting Standards permit a choice as to which standard to apply, we believe all entities that apply hedge accounting should apply the same hedge accounting requirements in respect of the contracts addressed in the amendments. This would prevent a further difference in accounting treatment between entities applying hedge accounting under different standards.

#### **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?

We suggest that the amendments should be effective for annual reporting periods beginning on or after 1 January 2026 with early application permitted.

While we appreciate the IASB's efforts to expediate the finalisation of the amendments before the end of 2024, we believe that entities should be given sufficient time for an orderly and high quality implementation. This may not be possible if the amendments are effective for annual reporting period beginning on or after 1 January 2025.

We acknowledge that the application of the amendments to the own use requirements is unlikely to be onerous, however the same cannot be said for the application of the amendments to hedge accounting, which among others, requires completion of high quality hedge documentation and prospective hedge effectiveness testing.

If the amendments are effective for annual reporting period beginning on or after 1 January 2026, with early application permitted, entities that are not affected by the hedge accounting requirements and those that have completed all the steps necessary to apply the amended hedge accounting requirements, will be able to take advantage of the option to apply the amendments early.

Additionally, a later effective date would give endorsement bodies in various jurisdictions sufficient time to complete their due process and in doing so minimise the risk of differences between IFRS Accounting Standards as issued by the IASB and those as endorsed in a particular jurisdiction.