

7 August 2024

International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Board Members,

RESPONSE TO EXPOSURE DRAFT CONTRACTS FOR RENEWABLE ELECTRICITY (PROPOSED AMENDMENTS TO IFRS 9 AND IFRS 7) (“ED”)

ISCA sought views from its members through a 5-week public consultation and from the ISCA Financial Reporting Committee which comprises experienced technical professionals from audit firms, preparers of financial statements and other stakeholders.

We appreciate and support the IASB’s efforts to address practice issues arising from the application of FRS 9 in respect of the accounting of contracts for renewable electricity. Except for ED Questions 4 and 5, we are generally supportive of the proposals in the ED and have highlighted areas where further clarification(s) could be made to enhance the scope and applicability of the requirements.

As mentioned, we have reservations regarding the IASB’s proposals (in ED Questions 4 and 5) requiring entities to specifically disclose the following information:

- Total net volume of electricity purchased irrespective of the source of production; and
- The average market price per unit of electricity in the markets in which the entity purchased electricity.

Our key concerns are that:

- the required information is non-financial in nature and is unlikely to be readily available from current financial reporting systems, leading to additional costs for entities to update systems especially for entities operating in multiple jurisdictions.
- the IASB’s proposal mandates the disclosure of total electricity purchases, even from non-nature dependent sources, as long as the entity has one contract for renewable electricity. This makes it unduly burdensome for entities with these PPAs.
- the term ‘average market price’ is not defined, which leaves it open to varying interpretations.
- the required information may be commercially sensitive or confidential especially if the entity only has one such contract for renewable electricity. This would result in vague disclosures which undermines the IASB’s intention of enhancing transparency.

We urge the IASB to review its proposals in this area in light of the above concerns.

Our detailed comments to specific questions in the ED are set out below.

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 agree with the proposals and would like to highlight the following areas for further clarification by the IASB.

1. Proposed paragraph 6.10.1(b) of IFRS 9

The IASB has proposed to limit the application of the proposed amendments in the ED to 'own-use' contracts for renewable electricity with specified characteristics – one of which is that the contract exposes the purchaser to substantially all the volume risk under the contract through 'pay-as-produced' features. Volume risk is the risk that the volume of electricity produced does not align with the purchaser's demand for electricity at the time of production (paragraph 6.10.1(b) of IFRS 9).

(i) Clarification of the description of 'volume risk'

In the above paragraph, volume risk is described as referring to the misalignment between 'the volume of electricity produced' and 'the purchaser's demand'.

This appears to address only scenarios where the power purchase agreement covers the entire volume of electricity produced by the specified production facilities. In practice, entities may transact only a portion of the energy produced. Hence, we suggest the IASB to clarify if 'volume risk' refers to the entire volume of electricity produced or the contracted volume of the electricity produced. If it is the latter, to refine the description of 'volume risk' to 'Volume risk is the risk that the **contracted** volume of electricity produced does not align with purchaser's demand for electricity at the time of production.'

(ii) Clarification of the meaning of 'substantially all the volume risk'

In the above paragraph, one of the specified characteristics that the power purchase agreement has is that it exposes the purchaser to substantially all the volume risk under the contract through 'pay-as-produced' features.

We suggest the IASB clarify on the meaning of 'substantially all the volume risk' and whether this would apply to certain types of power purchase agreements which are based on a fixed total volume, or with other features such as a floor, a cap or a combination of these such as range, that could limit the volume risk transferred to the purchasers. For instance, a purchaser has to purchase all the electricity produced up to a fixed amount of the cap volume of a pay-as-produced basis but is not subject to volume risk beyond the cap volume.

2. Applicability of the proposed requirements to situations involving a grid or intermediary between the seller and the purchaser

To qualify for the own-use exception was set out in paragraph 2.4 of IFRS 9, contracts must be entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. The proposed paragraph 6.10.3 of IFRS 9 provides guidance on the application of this own-use exception to contracts that meet the scoping characteristics set out in proposed paragraph 6.10.1 of IFRS 9.

The above paragraphs refer to contracts for the receipt or delivery of a non-financial item (i.e. renewable electricity). From literal reading, it appears to (i) refer to contracts where the renewable electricity is directly delivered from the supplier to the purchaser and (ii) preclude situations involving a grid or intermediary between the seller and the purchaser even though there is a power purchase agreement (PPA) between the seller and the purchaser.

In Singapore, it is a requirement under the Singapore Standard (SS) 673: Code of Practice for Renewable Energy Certificates (SS 673) that “renewable energy installations be connected to a grid operated by a regulator or a regulator-appointed party, and that energy output must be in the form of electricity delivered to a grid or grid connected load”.¹

If the objective of the PPA and the market structure or legal/regulatory framework requires that the seller to pass the volume risk through PPA to purchasers before it can supply renewable electricity to the market, we believe that such PPAs should be allowed for consideration for the scope exemption regardless of whether the seller has to deliver to the grid/intermediary or to the purchasers since the economic outcome is the same. In addition, we understand that Singapore is regarded as a gross pool electricity market, due to the design and operation of the electricity market. Therefore, entities may only be able to enter into virtual PPAs (vPPAs) where there may not be actual delivery of renewable electricity as envisaged by the IASB.

Since the objective of both physical PPAs and vPPAs is to ensure long-term access to renewable electricity and to fix the price per unit of electricity purchased or sold and the economic outcomes of the two types of contracts should be the same as acknowledged by the IASB in paragraph BC3, we propose that the IASB provide further clarity whether VPPAs are included in the scope exemption set out in the ED.

3. Nature-dependent source of production of renewable electricity

We note that:

- the IASB has stated in paragraph BC9 that it did not include contracts for biomass energy and some contracts for hydroelectricity in the scope of the proposed requirements because those contracts might only have one of the characteristics described in the proposed paragraph 6.10.1 of IFRS 9.
- further explanation of the IASB’s rationale for the above exclusion could only be found in paragraph 23 of the IASB’s staff paper titled “Power Purchase Agreement” in March 2024 as extracted below²:

- (a) although the **production of biomass energy** is nature dependent (for example because the energy comes from trees), it is not the case that the production of the energy cannot be guaranteed at particular times or for particular volumes. Biomass is the item to fuel the power station, but for example the sun’s effect on the biomass does not have the same cause-and-effect on the energy production as when the sun shines to generate energy at a solar farm. Therefore, contracts for biomass energy would fail the characteristic in paragraph 16(a).
- (b) **some contracts for hydro energy** do not transfer volume risk to the purchaser because it is possible for the generator to control production by, for example, opening or closing the dam or using other (less expensive) sources of energy to pump water through the generation assets. Therefore, these types of contracts for hydro energy would fail the characteristic in paragraph (b).

We are concerned that the exclusion of contracts for biomass energy and some contracts for hydroelectricity as well as the rationale for their exclusion are not apparent from reading paragraph 6.10.1 and BC 9. This can lead to further questions on whether contracts to buy or sell energy generated from certain ‘nature-dependent’ sources, such as geothermal, biogas, hydrogen-based fuels, or other energy sources that are considered renewable fuels from non-biological origin (RFNBO) would be within scope of the proposed requirements.

¹ Media factsheet “New Singapore Standard launch to support management and use of Renewable Energy Certificates” ([link](#))

² IASB Staff Paper ([link](#))

Hence, we suggest for the IASB to:

- expand paragraph 6.10.1 to include examples of contracts of renewable electricity from nature-dependent sources (including contracts for biomass energy and some contracts for hydroelectricity) that are not within scope of the proposed requirements; and
- include the rationale for their exclusion either in 6.10.1 or in the Basis for Conclusions on 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?

We agree with the proposals and would like to highlight the following areas for further clarification by the IASB.

1. Proposed paragraph 6.10.3(b)(iii) of IFRS 9

We note that:

- one of the criteria to be met when assessing whether if the own-use exception in paragraph 2.4 of IFRS 9 is applicable is that “the entity expects to purchase at least an equivalent volume of electricity within a reasonable time (for example, one month) after the sale” (proposed paragraph 6.10.3(b)(iii)).
- the IASB explained in paragraph BC20(c) that ‘reasonable’ depends on an entity’s operations, and that the example of one month in the proposed paragraph 6.10.3(b)(iii) is to demonstrate that a reasonable time is typically a short time.

Notwithstanding the above IASB’s explanation in paragraph BC20(c) on what constitutes ‘reasonable’, we are concerned that entities may view the ‘one-month example’ as a bright-line threshold to be applied. This will impact entities who have PPAs on renewable electricity whose production is subject to seasonality (e.g. high volume solar power production only in summer for Groups where their operations are in certain jurisdictions). In such cases, the entities are net-sellers within the short time period but net-purchasers only over a longer time period. Applying the bright-line threshold of ‘one-month’, the entities will conclude that they have failed the criteria in proposed paragraph 6.10.3(b)(iii).

To address the above concern and for better clarity, we suggest the IASB to:

- expand proposed paragraph 6.10.3(b)(iii) to include aspects of paragraph BC20(c) that reasonable depends on an entity’s operations, and is generally expected to be a short time as well as other factors such as seasonality; and
- remove the example of one-month which may be perceived to be bright-line threshold.

2. Proposed paragraph 6.10.3(b)(ii) of IFRS 9

We note that one of the criteria to be met when assessing whether if the own-use exception in paragraph 2.4 of IFRS 9 is applicable is that “the design and operation of the market in which the electricity is sold results in the entity not having the practical ability to determine the timing or price of the sale” (proposed paragraph 6.10.3(b)(ii) of IFRS 9).

As technology develops, entities may gain access to large-scale electricity storage devices which could store the renewable electricity generated for future use. This could potentially provide the entity ‘practical ability’ to determine the timing and possibly price of the sale of renewable electricity.

We suggest the IASB to clarify whether an entity’s actual or potential access to electricity storage devices will affect the assessment in proposed paragraph 6.10.3(b)(ii) of IFRS 9.

3. Proposed paragraph 6.10.3 of IFRS 9

We note that:

- the IASB has proposed to require the entity to assess whether the own-use exception in paragraph 2.4 of IFRS 9 is applicable at inception of the contract and at each subsequent reporting date (proposed paragraph 6.10.3 of IFRS 9).
- the IASB has stated in paragraph 6.10.3(a) and paragraph BC20(b) that an entity shall consider 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 (or the entity's normal operating cycle).
- If the entity fails the above said assessment, it will be required to reclassify contracts for renewable electricity as derivatives.

As the above assessment is only required to be performed at each subsequent reporting date, if circumstances change such that an entity's expected volume to be delivered differs from its expected purchase or usage requirements during the reporting period (i.e. circumstances that are not reasonably expected as at the last reporting date), can the entity reclassify the PPA as a derivative at that point in time or perform the reclassification only at the next reporting date?

We suggest that the entity (in the above situation) be allowed to perform a reassessment and the reclassification as and when there are significant triggers for such reassessment. In addition, we would like the IASB to clarify if the 'subsequent reporting date' in the proposed paragraph 6.10.3 of IFRS 9 includes interim reporting date under IAS 34 *Interim Financial Reporting*.

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 proposals and would like to highlight the following areas for further clarification by the IASB.

1. Proposed paragraph 6.10.4(b) of IFRS 9

The IASB has proposed to permit entities to designate a variable nominal volume as the hedged item when two conditions are met – (a) the hedged item is specified as the variable volume of electricity to which the hedging instrument relates; and (b) the variable amount of forecast electricity transactions designated in accordance with (a) do not exceed the volume of future electricity transactions that are highly probable (proposed paragraph 6.10.4 of IFRS 9).

As the period of the above 'highly probable' assessment is not set out in the standard, entities may take reference from the period of the own-use assessment set out in proposed paragraph 6.10.3(a) of IFRS 9 which states that the entity is not required to make a detailed estimate for periods that are far in the future and provides 12 months as the minimum period to look ahead. Hence, we suggest for the IASB to provide clarification in this area.

In addition, we suggest for the IASB to provide further guidance including provision of illustrative example(s) on how to assess the effectiveness and ineffectiveness of hedging relationships in the context of the proposed amendments.

2. Proposed paragraph 6.10.5 of IFRS 9

The IASB has proposed that if the entity designates the renewable electricity sales in accordance with proposed paragraph 6.10.4(a), such forecasted sales are not required to be highly probable if the hedging instrument refers to a proportion of the total future renewable electricity sales from the referenced production facility.

We suggest for the IASB to add a clarification that the proposals only apply to contracts that reference the volume of the seller's own renewable electricity production facility to avoid a situation where it enters into contracts that are unrelated from their own electricity production volume and apply hedge accounting to such contracts.

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 agree with the proposals and would like to highlight the following areas for further clarification by the IASB.

1. Scope of IFRS 7 to include contracts for renewable electricity accounted for as normal purchase

The IASB has proposed paragraphs 42T – 42W of IFRS 7 to require entities to disclose information that would enable users of financial statements to understand the effects of contracts for renewable electricity that have the characteristics in proposed paragraph 6.10.1 of IFRS 9. This will include contracts for which the own-use exception in paragraph 2.4 of IFRS 9 is applicable.

We wish to highlight that the above runs contrary to paragraph BC40 which states that “contracts accounted for as a normal purchase would not be subject to the disclosure requirements of IFRS 7”. Hence, we urge the IASB to address this inconsistency by updating the scope section of IFRS 7 to scope in those contracts for renewable electricity accounted for as a normal purchase for purposes of the proposed paragraphs 42T – 42W of IFRS 7.

2. Proposed paragraph 42U and 42V(a) of IFRS 7

We note that the IASB has proposed that entities (who are sellers and purchasers) disclose the proportion of renewable electricity covered by the contracts to the total electricity sold or purchased for the reporting period (proposed paragraphs 42U and 42V(a) of IFRS 7).

We suggest the IASB to clarify whether the above requirement apply to vPPAs accounted for as derivatives as electricity transacted through derivative vPPAs would not be considered to be a proportion of total electricity sold or purchased because they are not part of physical sales or purchases. If the requirement does not apply to vPPAs, to refine the disclosure requirement to disclose the proportion of renewable electricity covered by the contracts to the total electricity sold or purchased **that were physically delivered** for the reporting period.

3. Proposed paragraph 42V(b) to 42V(d) of IFRS 7

We note that the IASB has proposed to require entities (who are purchasers) to specifically disclose the following information (proposed paragraph 42V(b) to 42V(d) of IFRS 7):

- (i) Total net volume of electricity purchased – irrespective of the source of production.
- (ii) The average market price per unit of electricity in the markets in which the entity purchased electricity.
- (iii) If (i) multiplied by (ii) differs substantially from the actual total cost incurred by the entity to purchase the volume of electricity in (i), a qualitative explanation of the key reasons for this difference.

We have the following concerns regarding the above:

- The required information is non-financial in nature and is unlikely to be readily available from current financial reporting systems of entities. Updating the systems to track the information will incur additional costs, which will be higher for entities operating in multiple jurisdictions.
- The IASB has proposed to require entities to disclose the total net volume of electricity purchased irrespective of the source of production (in (i) above). This means entities are to disclose this information even if the electricity is not from nature-dependent sources, as long as they have one contract for renewable electricity (which is within scope of the proposed amendments in this ED). If they do not have such contracts, no disclosure is required. This makes it unduly burdensome for entities with these contracts for renewable electricity.
- The term 'average market price' (in (ii) above) is not defined, leaving it open to interpretation such as wholesale or peak period price. Additionally, for entities operating in multiple jurisdictions, it is unclear whether 'average market price' refers to the average across all jurisdictions.
- While the IASB permits entities to determine the detail level of disclosures of the above information in proposed paragraph 42W of IFRS 7, the required information may be commercially sensitive or confidential. This is especially if the entity only has one such contract for renewable electricity. This could result in vague disclosures which undermine the IASB's intention of enhancing transparency.

We urge the IASB to review its proposals in this area in light of the above concerns.

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?

1. Proposed paragraph 67C(b) to 67(d) of IFRS 19

We note that the IASB has proposed to require entities (who are purchasers) to specifically disclose the following information (proposed paragraph 67C(b) to 67C(d) of IFRS 19):

- (i) Total net volume of electricity purchased – irrespective of the source of production.
- (ii) The average market price per unit of electricity in the markets in which the entity purchased electricity.
- (iii) If (i) multiplied by (ii) differs substantially from the actual total cost incurred by the entity to purchase the volume of electricity in (i), a qualitative explanation of the key reasons for this difference.

We also note that the IASB has not proposed to permit entities to determine the detail level of disclosures of the above information unlike its proposal in paragraph 42W of IFRS 7.

We have similar concerns about the required disclosures as set out in Point 3 to ED Question 4. In addition, we wish to highlight that the cost of producing the required information may exceed the benefits of doing so, particularly for subsidiaries without public accountability. This is inconsistent with IFRS 19's overall aim of reducing disclosure burden for such entities.

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?

1. Proposed paragraphs 7.2.50 and 7.2.51 of IFRS 9

As the IASB has proposed requiring entities to adopt a modified retrospective approach when applying the own-use exemption amendments, we like to suggest the IASB to clarify on the transition treatment for any electricity costs previously capitalised as the comparatives are not restated.

2. Proposed paragraph 7.2.52 of IFRS 9

The IASB has proposed requiring entities to adopt a prospective approach when applying the amendments to hedge accounting requirements.

We support the prospective application of the said amendments but request for the IASB to clarify whether entities are allowed to prepare the hedging documentation at a later date (i.e. at reporting date) upon adoption of the said amendments as opposed to at the beginning of the financial period when the said amendments are applied.

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?

In our view, an effective date of annual reporting periods beginning on or after 1 January 2025 may not allow enough time for entities to assess the impact on their reporting systems and processes to facilitate the collection of additional information needed for the required disclosures. We suggest for a later effective date with the option for early adoption.

Should you require any further clarification, please feel free to contact Ms Felicia Tay at felicia.tay@isca.org.sg or Ms Jezz Chew at jezz.chew@isca.org.sg.

A handwritten signature in black ink, appearing to read 'Kang'.

Yours faithfully,
Mr Wai Geat, KANG
Divisional Director
Professional Standards Division