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Contracts for Renewable Electricity

Draft Comment Letter

Cover Note

Objective

- 1 The objective of this session is to request the EFRAG FRB members approval to issue EFRAG's Draft Comment Letter on the IASB's Exposure Draft Contracts for Renewable Electricity, Proposed amendments to IFRS 9 and IFRS 7.

Timeline and next steps

- 2 EFRAG's draft comment letter is expected to be published shortly after EFRAG's FRB meeting approving the DCL on 11 June 2024, subject to FRB members comments.
- 3 The constituents will be asked to submit their comments and answers to the questions raised in the DCL by 15 July 2024, which allows a 30-day comment period for constituents.
- 4 A joint EFRAG FR TEG and FRB meeting will take place on 29 July 2024 with the objective to approve EFRAG's final comment letter, taking into consideration the feedback received from constituents.
- 5 Based on the timeline proposed above, EFRAG will be able to comply with the IASB's request to receive the final comments by 7 August 2024.

Comments received from EFRAG FR TEG members (meeting held of June 4, 2024)

Scope of the proposed amendments

- 6 FR TEG members expressed their support for the scope of the proposed amendments, however some comments were provided, in particular as outlined below.
- 7 Some FR TEG members did not support paragraphs 5 through 9 of the [proposed DCL](#) noting that they do not foresee application challenges for keeping the term "renewable" as

currently done by the IASB. One FR TEG member supported the said paragraphs of the [proposed DCL](#), therefore Members agreed to submit the question to the constituents in this regard.

- 8 Several FR TEG members did not support paragraphs 12 through 17 of the [proposed DCL](#) and suggested not including alternative wording within the DCL.
- 9 Requirement 6.10.1(b) referring to ‘substantially all’ volume risk was identified as highly judgmental. Several members indicated that further clarification of how this criterion should be assessed will be helpful.
- 10 One member raised question related to the baseload contracts noting that in practice there are application challenges with these types of contracts.
- 11 In addition, current wording in paragraph 6.10.1(b) was considered to focus only on the contracts with ‘pay-as-produced’ feature, whereas in practice there is a wide range of contracts containing ‘pay-as-forecasted’, ‘pay-as-nominated’ features as well as volume cap, floor and collar features.
- 12 Overall, members agreed that there is a wide variety of contracts for renewable electricity and the proposed requirements should be principle based allowing for consistent application of the proposed amendments.

Own-use requirements

- 13 One FR TEG member was of the view that considering the purpose, design and structure of a PPA was not very useful for the own-use assessment. The underlying purpose of many contracts for renewable electricity was to obtain renewable energy certificates, which was not relevant for assessing whether the contracted electricity is for own-use purposes.
- 14 One FR TEG member agreed that paragraph 6.10.3(a) of the [ED proposals](#) might be interpreted that entities should make detailed estimates for periods longer than 12 months for other own-use assessments done under paragraph 2.4 of IFRS 9. However, she suggested removing from paragraph 6.10.3(a) what an entity is not required to do (i.e. to make a detailed estimate for periods that are far in the future) instead of both what an entity is not required to do and what is required to do.
- 15 One FR TEG member questioned the need of referring to price in paragraph 6.10.3(b)ii of the [ED proposals](#) (i.e. the design and operation of the market prevents the entity from determining the timing or price of the sale).
- 16 One FR TEG member supported the removal of paragraph 6.10.3(b)ii of the [ED proposals](#). In his view it was not needed because these sales were made by subcontracted entities and

therefore the reporting entity was not subject to the market regulation. A few members disagreed with this removal. If in the future there were economic viable batteries, this criterion would prevent entities from qualifying for own use purposes (i.e. in case an entity would sell unused energy into the market).

- 17 A few FR TEG members sought clarification about the level at which an entity should perform the own use assessment.
- 18 FR TEG members did not support the EFRAG Secretariat proposal of having a bright-line to specify what a reasonable time under paragraph 6.10.3(b)iii might be. FR TEG members were generally of the view that one month was too short and that seasonality and entity's specific circumstances should be considered. One FR TEG member suggested that there should be a cap of one year and another FR TEG member suggested that the IASB could provide an example of what might not be reasonable.

Hedge accounting requirements

- 19 FR TEG members expressed support for the IASB's proposals, specifically the distinction between the analysis related to the seller and the purchaser.
- 20 FR TEG members did not agree with the paragraphs 36-43 of the [proposed DCL](#).
- 21 Several members drew their attention to the requirements related to highly probable criterion. In particular, as it relates to forecasted sales, members noted that those are by design highly probable considering contracts in scope and therefore the amendments should not be red as providing exception of this requirement.
- 22 On the other side, as it relates to the highly probable criterion for the future purchases, members suggested clarifying how the hedge accounting documentation is expected to capture the highly probable criterion considering that the mere duration (commonly over 15 years) of the contracts in scope raises questions as to whether such assessment can be documented satisfactorily.

Disclosure requirements (inc. SWOPA)

- 23 One FR TEG member did not support paragraph 49 of the [proposed DCL](#). He was of the view that users would be interested in having disclosures on both contracts for renewable electricity that qualify for own use purposes and contracts that are accounted for at fair value. A few FR TEG members disagreed and supported the EFRAG Secretariat proposal.
- 24 A few FR TEG members considered that it was important that the IASB explicitly required an entity to disclose the impact of the sales of unused energy for the reporting period. They

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were of the view that this item of information was necessary to meet the specific disclosure objective outlined in paragraph 42V of the [ED proposals](#).

- 25 A few FR TEG members did not support paragraph 52 of the [proposed DCL](#). Conversely, one FR TEG member supported this paragraph because paragraph 42U of the [ED proposals](#) required entities to disclose quantitative information that was defined as ESRS.
- 26 A few FR TEG members did not support paragraph 55 of the [proposed DCL](#).

Transition and effective date

- 27 FR TEG members agreed with the EFRAG Secretariat's comments and suggested further clarifying the transition requirements for the contracts in scope of the proposed amendments which were previously accounted for as cash flow hedge but will meet the own-use exception requirements based on the proposed requirements.
- 28 As to the effective date, FR TEG members suggested consulting with the constituents.

Agenda papers

- 29 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 01-02 – EFRAG's Draft Comment Letter; and
 - (b) Agenda paper 01-03 – Exposure Draft Contracts for Renewable Electricity, Proposed amendments to IFRS 9 and IFRS 7