RÅDET FÖR HÅLLBARHETS- OCH FINANSIELL RAPPORTERING

The Swedish Corporate Reporting Board
RFR-rs 2024:5

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

Stockholm 11 July 2024

Re: Exposure Draft: Contracts for Renewable Electricity

Dear Mr. Barckow,

The Swedish Corporate Reporting Board is responding to your invitation to comment on the *Exposure Draft: Contracts for Renewable Electricity – Proposed amendments to IFRS 9 and IFRS 7.*

We support the IASB's decision to make amendments to IFRS 9 *Financial Instruments* for contracts to buy or sell renewable electricity and appreciate the efforts made to issue it urgently. Power Purchase Agreements (PPAs) for renewable electricity are becoming increasingly prevalent in the electricity markets as entities seek to fulfill net zero commitments. We agree that it is necessary to amend IFRS 9 to ensure that financial statements faithfully represent the effects of these contracts.

However, we consider the amendments to be too narrow in scope, which risk causing PPAs regarding renewable electricity to fail the own-use exemption even under the proposed amendments.

Please see below for our detailed comments and concerns.

The proposed own-use requirements

We agree with the proposal to make it easier for contracts for purchase of physical renewable electricity where the purchaser takes the volume risk to meet the own-use requirements. In our experience, electricity consuming entities generally enter into these contracts to ensure the supply of renewable electricity for their own electricity needs and the contracts are typically handled through the same procurement processes and decisions as for purchases of other types of goods and services. We therefore agree with the assessment that recognition of changes of the fair value of the contracts does not provide useful information about the performance of those entities

The Swedish Corporate Reporting Board
Box 7354, SE-103 90 STOCKHOLM, Sweden. Visiting address: Nybrokajen 7, Stockholm
Tel: +46-733972480
www.radetforrapportering.se

and that the contracts should be accounted for in the same way as other procurement contracts.

However, we have concerns that the proposed conditions for when a contract to buy and take delivery of renewable electricity would qualify for the exemptions from derivatives accounting are too narrow. This could severely limit the possibility to use the exemption for such contracts, especially when an entity is forced to sell electricity that cannot be used. Our main concerns relate to the proposed requirements regarding so-called oversized contracts and to the prosed criteria in IFRS 9.6.10.3.b.iii which stipulates that an entity must expect "... to purchase at least an equivalent volume of electricity within a reasonable time (for example, one month) after the sale."

Oversized contracts

We are concerned about the outcome of paragraph BC 20 which states that if "*...an entity enters into a contract that is expected to continuously deliver more electricity than the entity needs, such an 'oversized' contract would not be in accordance with the entity's expected usage requirements*." In our experience, it is not uncommon for entities, especially within the process industry, to enter into PPAs for more than its forecasted electricity consumption to avoid any interruption or downtime of its operations. The purpose is to ensure continuous supply of electricity rather than for speculative purposes. Therefore, such contracts should be accounted for under the relevant IFRS Accounting Standards as for any other regular procurement contracts and not as derivatives. We do not see that reporting for such contracts as derivatives at fair value though profit and loss would provide useful information about an entity's use of PPA for renewable electricity.

Requirements to purchase an equivalent volume within a reasonable time

Given that the production of wind and solar electricity is "nature-dependent", there are many instances where an entity cannot reasonably expect to purchase an equivalent volume in the following month. This could for instance be the case for electricity from wind farms where an entity could expect to have to sell unused electricity for several consecutive months during seasons with strong winds.

A similar situation could also arise with electricity from solar farms in regions far away from the equator where the annual electricity production is concentrated to the summer months. Consequently, a PPA for solar power could potentially meet the proposed requirements if the park is located around for instance London, Rome or Sydney, but an otherwise identical PPA for electricity from a park located around Stockholm or Copenhagen would fail the indicative one-month time frame and would have to be reported as a derivative. This does not seem to be an outcome that provides useful information to investors as identical contracts would be accounted for differently depending on the physical location of the park. We therefore urge the IASB to consider a considerably wider time span than the indicated one month.

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Proposed hedge accounting requirements

We agree with the proposed amendments to IFRS 9 to allow an entity to designate a *variable* nominal volume of forecast electricity transactions as the hedged item in a cash flow hedging relationship. That would align the hedge accounting requirements in IFRS 9 with the risk management objective for those types of hedges and would enable an entity to more faithfully represent the economic effects of such hedging relationship in the financial statements.

However, we would also like to point out that applying hedge accounting for such contracts would still be very cumbersome and challenging in practice due to the long duration of virtual PPAs and the complexity of making reliable fair value measurements for such contracts.

Proposed disclosure requirements

We understand the need for increased disclosures for contracts that meet the own-use requirement due to the proposed amendments to IFRS 9. However, providing information on the proportion of renewable electricity covered by such contracts to the total net volume of electricity purchased, the total volume of electricity produced (irrespective of the source of production) and the average market price per unity of electricity purchases seem excessive in light of the fact that an entity is not required to provide similar disclosures regarding other types of procurement contracts which may also have significant value.

If you have any questions concerning our comments, please address our Executive member Fredrik Walméus by e-mail to: fredrik.walmeus@radetforrapportering.se.

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Yours sincerely

Anders Ullberg
Chairman

The Swedish Corporate Reporting Board
Box 7354, SE-103 90 STOCKHOLM, Sweden. Visiting address: Nybrokajen 7, Stockholm
Tel: +46-733972480
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