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International Accounting Standards Board
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**Comments on the Exposure Draft *Contracts for Renewable Electricity (Proposed amendments to IFRS 9 and IFRS 7)***

To the IASB Board Members:

The Japanese Institute of Certified Public Accountants (JICPA) appreciates the continued efforts of the International Accounting Standards Board (IASB) to develop high quality accounting standards and welcomes the opportunity to comment on the Exposure Draft *Contracts for Renewable Electricity (Proposed amendments to IFRS 9 and IFRS 7)* (Exposure Draft).

We support the IASB's decision to focus on contracts to buy or sell renewable electricity that have specified characteristics and amend the requirements for the own-use exemption and hedge accounting to swiftly respond to the strong needs of stakeholders. That said, we suggest the following improvement be made to the Exposure Draft:

- We agree on limiting the application of the proposed amendments in the Exposure Draft only to contracts to buy or sell renewable electricity with two specified characteristics stipulated in paragraph 6.10.1. However, the Exposure Draft is not clear about what kind of contracts would fulfill both characteristics. Therefore, we suggest the Board provide more detail as to when a contract is supposed to meet

both characteristics (or just one of them) with associated reasons for the conclusion. (See our comments to Question 1)

- The proposal in paragraph 6.10.3 regarding the own-use exemption requirement seems to be applicable only when a contract meets paragraph 6.10.1 and an entity, under the contract, resells part of the electricity purchased shortly after delivery. However, in practice, there are cases where an entity buys electricity from multiple power sources, part of which qualifies for renewable electricity that have the characteristics in paragraph 6.10.1. Further clarification is needed in such cases, where the entity can have a hard time tracing back the power source of electricity subject to resale, to determine the applicability of the own-use exemption. (See our comments to Question 2)
- An entity is expected to purchase at least an equivalent volume of electricity within a reasonable time (for example, one month) after the sale according to the own-use exemption requirement in paragraph 6.10.3 (b)(iii). However, renewable electricity is nature-dependent, as described in the Exposure Draft as one of the characteristics of a contract for renewable electricity, so that supply cannot be guaranteed at specified times or for specified volumes. In the real world, excess supply may last for months depending on climate. Therefore, we argue that there are cases where the requirement does not align with actual characteristics of a contract. (See our comments to Question 2)
- There are a wide range of transactions and arrangements under renewable electricity contracts that are within the scope of the Exposure Draft to which hedge accounting is expected to be applied, which might cause confusion in practice when assessing hedge effectiveness. Therefore, we suggest the Board should provide illustrative examples for clarification purposes to prevent inconsistent application of the proposed hedge accounting in practice. (See our comments to Question 3)
- Given that the proposed disclosure requirements in the Exposure Draft will create exceptions to contracts for renewable electricity that have specified characteristics, we support the IASB's general idea of requiring an entity to provide additional information that would enable users of financial statements to understand the effects on the entity's financial performance and the amount, timing and uncertainty of the entity's future cash flows. However, it is expected that entities will have to put in a significant amount of investment, including IT system implementation, and preparation time to comply with the disclosure requirements. It would also be costly for auditors to audit such information. Provided that the

proposed disclosures will be made on a consolidated basis, the IASB should carefully consider costs and benefits of providing such information, questioning whether it would be truly relevant for users as expected. We are also concerned that such expected long-term preparation period may interfere the original purpose of the project, which is to swiftly respond to the strong needs of stakeholders of financial statements. Therefore, we strongly recommend substantially improving the disclosure requirements. (See our comments to Question 4 and 7)

Although we support the Exposure Draft's proposal to focus on renewable electricity, we expect the IASB to continue running a research project for the application of the own-use exemption requirement and hedge accounting for further improvement even after this project of the proposed amendments to IFRS 9 and IFRS 7 is completed.

As regards to the own-use exemption, there are other commodities besides electricity, such as Liquified Natural Gas (LNG), which cannot be practically stored from an economic perspective, although technically possible. In such cases, an entity has no choice but to immediately resell excess of those commodities after delivery, even though the entity has no intent to generate short-term margin from those resale transactions. We recommend the IASB to amend paragraph 2.6 of IFRS 9, which allows unexpected resale transactions to qualify for the own-use exemption, so that the same rule is applicable to these types of similar contracts.

For hedge accounting, it is set forth in the Exposure Draft that only contracts to buy or sell renewable electricity that have specified characteristics are allowed to be excused from meeting one of the cash flow hedge accounting requirements in IFRS 9, which stipulates that a forecast transaction must be highly probable. It is uncertain as to why all other commodity transactions except renewable electricity are still required to consider volume risks (and also the risk of non-occurrence of a transaction) in determining whether or not the hedge accounting requirement is applicable to those transactions. To make the financial statements become faithfully representational about the economic effect on hedging relationships, we believe hedge accounting should be applicable to other transactions as well if there is a contract term included in a hedging instrument that can completely offset volume risks contained in a hedged item. We would appreciate the IASB's continuous effort in improving the IFRS Standards.

Please see our comments to each Question in the following pages.

| **Question 1—Scope of the proposed amendments** |
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| 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.<br><br>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?<br><br>If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why? |

**Comment:**

We agree on limiting the application of the proposed amendments only to contracts for renewable electricity. However, we believe the application scope of the proposal needs further clarification.

We understand that the proposed amendments need to be developed in response to providing a swift solution within a certain time frame, and thus agree with the IASB about limiting the application scope to avoid interfering the current accounting practice.

That being said, we believe the Board should provide more detail as to when a contract is considered to have the characteristics proposed in paragraph 6.10.1 and associated reasons for the conclusion. For example, according to paragraph BC9 of the Exposure Draft, the IASB did not include some contracts for biomass energy and hydroelectricity in the scope of the proposed requirements because those contracts might only have one of the characteristics described in paragraph 6.10.1; however, it is not explicitly stated which of the two characteristic is missing and why it is considered to be missing. As we expect new technologies, including batteries, will be established to effectively utilise renewable electricity, and also new types of renewable electricity other than solar and wind renewables may emerge in the near future, we suggest the Board clarify through illustrative examples the type of contracts that would have both of the characteristics and the reason behind the conclusion in order to prevent inconsistent application of the proposed accounting treatment in practice.

Moreover, we do not think the term 'purchase' in paragraph 6.10.1(b) accurately reflects a transaction under virtual PPAs because, in those cases, the purchasing party does not actually purchase electricity. Accordingly, the wording of paragraph 6.10.1(b) should be revised to clarify that an entity is exposed to volume risks, under which the entity cannot control the 'volume' under a virtual PPA transaction.

Even better, we expect the IASB to continue running a research project for the application of the own-use exemption requirement and hedge accounting for further improvement even after this project of the proposed amendments to IFRS 9 and IFRS 7 is completed.

This is because there are other commodities besides electricity, such as Liquified Natural Gas (LNG), which cannot be practically stored from an economic perspective, although technically possible. In such cases, an entity has no choice but to immediately resell excess of those commodities after delivery, even though the entity has no intent to generate short-term margin from those resale transactions. We recommend the IASB to amend paragraph 2.6 of IFRS 9, which allows unexpected resale transactions to qualify for the own-use exemption, so that the same rule is applicable to these types of similar contracts.

Furthermore, we understand the application requirement for cash flow hedging in paragraph 6.10.4 provides relief for virtual PPAs. It is unclear as to why only specific renewable electricity transactions subject to the Exposure Draft are excused from meeting the hedge accounting requirement in IFRS 9, which stipulates that a forecast transaction must be highly probable to qualify as a hedged item, and all other commodity transactions except renewable electricity are still required to consider volume risks (and also the risk of non-occurrence of a transaction) in determining whether or not the hedge accounting requirement should be applicable to those transactions. We believe the IASB's argument in paragraphs BC34 and after in the Exposure Draft should be equally applied to other contracts if there is a contract term included in a hedging instrument that can completely offset volume risks contained in a hedged item. According to the IFRS Interpretations Committee's Agenda Decision in March 2019, the Committee re-emphasised that sufficient specificity in the magnitude of the hedge item should be determined in advance. It is of our view that the proposed amendments in the Exposure Draft are narrow-scope, rule-based amendments, which need further improvement going forward. We would appreciate the IASB's continuous effort in amending the hedge accounting standards to respond to practical needs.

| **Question 2—Proposed 'own-use' requirements** |
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| 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.<br><br>Do you agree with these proposals? Why or why not?<br><br>If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why? |

**Comment:**

We agree with the proposed requirements for the own-use exemption. We suggest further improvement and clarification be made in the following areas to make the requirements become more useful in practice.

Paragraph 6.10.3 (a) requires an entity to consider 'the purpose, design and structure of the contract,' which we think is too vague as a requirement to understand what exactly should be considered. For clarification purposes, we recommend the requirement should take account of the description in paragraph BC20, which states that contracts to buy renewable electricity are typically designed and structured to give an entity access to a proportion of the total volume of electricity produced by a referenced production facility.

Further, the proposals in paragraph 6.10.3 seem to be applicable only when a contract meets paragraph 6.10.1 and an entity, under the contract, resells part of the electricity purchased shortly after delivery. However, in practice, there are cases where entities buy electricity from multiple power sources, part of which meets paragraph 6.10.1, and a portion of the electricity bought is later subject to resale. In such cases, it will be difficult to trace back whether or not that portion is sourced from renewable electricity, making it hard to determine how paragraph 6.10.3 can be applied to the transaction. It is also uncertain as to whether the assessment should be made separately for renewable electricity and other electricity to determine the applicability of the own-use exemption. It is not clear whether a contract has the characteristics in paragraph 6.10.1 when part of the entity's electricity needs is met by renewable electricity and the remaining is adjusted by using other electricity, making the entity being a net-purchaser all the time. In short, we recommend the IASB to clarify how paragraph 6.10.3 should be applied when electricity that meets and does not meet paragraph 6.10.1 are commingled.

Moreover, an entity is expected to purchase at least an equivalent volume of electricity within a short period after the sale according to the requirement in paragraph 6.10.3 (b)(iii). However, as it is difficult to store electricity and hard to distinguish 'electricity purchased in the future' with 'electricity purchased now,' we do not think the requirement provides a theoretical rationale. We guess the proposed requirement is trying to restrict an entity from applying the own-use exemption when it is constantly selling renewable electricity not used on its own in the market. We suggest the IASB reconsider the requirement, which expects an entity to purchase at least an equivalent volume of electricity within a reasonable time (for example, one month) after the sale due to the following reasons:

First, it is not very clear whether the provision is requiring an entity to purchase the volume of electricity purchased under a contract for renewable electricity plus the electricity sold in the previous month based on actual demand in the following month, or is simply requiring an entity to purchase the volume of electricity sold in the previous month in the following month, allowing the entity to meet the requirement even when it sells power again in the following month.

Secondly, renewable electricity is nature-dependent, as described in the Exposure Draft as one of the characteristics of a contract for renewable electricity, so that supply cannot be guaranteed at specified times or for specified volumes. It is true that in the real world, depending on climate, excess supply may last for months. Under such circumstances, we are not sure whether it is appropriate to specify one month as a reasonable time period, which seems very short, and to expect an entity to purchase at least an equivalent volume of electricity, because those provisions do not seem to always reflect the characteristic of a contract for renewable electricity under which supply cannot be guaranteed at specified times or for specified volumes. These may raise the bar for preparers to apply the proposed requirement, which should be against the IASB's original intent.

Accordingly, instead of the description in paragraph 6.10.3 (b)(iii), entities should have more room for judgement based on materiality, which can be achieved by saying, for example, that the percentage of unused electricity sold to the volume of electricity which an entity takes delivery based on a contract is not considered material on a cumulative basis.

| **Question 3—Proposed hedge accounting requirements** |
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| 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.<br>Do you agree with these proposals? Why or why not?<br>If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why? |

**Comment:**

We agree with the proposed hedge accounting requirement. We further suggest the IASB provide illustrative examples to clearly demonstrate how an entity can assess hedge effectiveness as proposed in the Exposure Draft.

There are a wide range of transactions and arrangements under renewable electricity contracts that are within the scope of the Exposure Draft to which hedge accounting is expected to be applied. Therefore, we believe the Board should provide illustrative examples to clearly demonstrate how an entity can assess hedge effectiveness in order to prevent inconsistent application of the proposed hedge accounting in practice. In some cases, transactions may generate mismatches consequently, and in other cases, it may be known from the beginning that inconsistencies between the volume of the hedging instrument and the hedged item will occur. For example, when there is a factory using purchased power and it needs to temporarily halt its operation due to regular maintenance, it is impossible to estimate volume in advance even if it is known from the beginning that inconsistencies will occur. In that context, the requirement in paragraph 6.10.6, which says 'an entity shall measure the hedged item using the same volume assumptions as those used for measuring the hedging instrument,' can be interpreted as no need for entities to measure hedge ineffectiveness under those scenarios with inconsistent volumes. On the other hand, we can argue that it is not the intention of the Exposure Draft to allow entities to justify that no hedge ineffectiveness will be created even when it is known from the beginning that inconsistencies will occur. Accordingly, we suggest the IASB provide illustrative examples projecting different cases to clearly demonstrate how an entity can assess hedge effectiveness.

| **Question 4—Proposed disclosure requirements** |
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| 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:<br>(a) the entity's financial performance; and<br>(b) the amount, timing and uncertainty of the entity's future cash flows.<br>Do you agree with these proposals? Why or why not?<br>If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why? |

**Comment:**

Although we overall agree with the IASB's proposal to develop specific disclosure requirements for contracts for renewable electricity that are within the scope of the Exposure Draft, further improvement is required for the proposed disclosures.

We understand the proposed accounting treatments in the Exposure Draft are creating

exceptions to contracts for renewable electricity that have specified characteristics. We support the IASB's general idea to require an entity to provide additional information that would enable users of financial statements to understand the effects on the entity's financial performance and the amount, timing and uncertainty of the entity's future cash flows.

That said, further improvement is required for the proposed disclosures because it is uncertain as to how much benefit can be provided to users for their better understanding of financial statements when compared to additional burden put on preparers. See our detailed comments below:

- We understand paragraph 42T(a) is requiring an entity to disclose the terms and conditions of contracts for renewable electricity in all cases as long as the entity is a party to contracts for renewable electricity that have the characteristics in paragraph 6.10.1, regardless of whether or not the own-use exemption or the hedge accounting is applicable to the entity. Given that more and more entities will enter into contracts for renewable electricity in the future, we are concerned that undue effort will be put on entities to meet the proposed disclosure requirement. Therefore, we first suggest narrowing down the application scope of the proposed disclosure requirement to contracts to which the own-use exemption or hedge accounting is applied. Then, in addition to disclosing the terms and conditions of those contracts, entities can provide further information, explaining why they think those contracts are subject to the proposed requirements, which can be useful information to users of financial statements.
- Paragraph 42T(b)(i) is requiring an entity to disclose fair value information on contracts for renewable electricity that are not measured at fair value through profit or loss (or comply with the disclosure requirement in paragraph 42T(b)(ii)). If an entity is applying the own-use exemption requirement, it is generally expected that the entity would not be measuring or managing contracts on a fair value basis (see paragraph BC49). In such cases, we are doubtful about the benefits of calculating and disclosing fair value information for long-term contracts with significant uncertainty. As an increase in audit costs would further put undue burden on entities, we are concerned the costs of applying the requirements would outweigh the benefits of the proposed disclosure requirements. As an alternative solution to respond to the information needs of users, we suggest that entities should disclose information on the terms and conditions only for the contracts we specified in our comments for paragraph 42T(a), especially from a perspective of whether they are onerous or not. If the IASB still requires entities to disclose fair value information, then we suggest the Board clarify

whether entities should also follow the disclosure requirement in paragraph 93(h)(ii) of IFRS 13, requiring the disclosure of quantitative information including sensitivity analysis, for financial assets and financial liabilities when accounting for derivatives to which the own-use exemption requirement is applied (i.e. contracts for renewable electricity for which financial assets and liabilities are not recognised).

- We think further clarification is needed for the disclosure requirement in paragraph 42T(b)(ii), which allows an entity to disclose the volume of renewable electricity a seller expects to sell or a purchaser expects to purchase, instead of disclosing fair value information. The proposal permits an entity to provide such information in a range of periods, which we believe is the minimum information accepted by the IASB for disclosure purposes. However, we consider such description might give a wrong message that entities do not necessarily have to provide information in a range of periods, but instead, room is left for them to disclose information in other ways. Furthermore, the proposed disclosures do not seem to be useful enough as information to directly understand how contacts affect the entity's financial performance. Therefore, as a solution, we may suggest asking entities to provide information on both contract prices and market prices as of the end of the period for contracts subject to the proposed requirement.
- Careful consideration should be given on costs and benefits to comply with the disclosure requirements in both paragraph 42U for sellers under contracts for renewable electricity and paragraph 42V for purchases under contracts for renewable electricity. This is because the paragraphs are requiring preparers of financial statements to obtain information on total electricity sold for the reporting period and the volume of renewable electricity sold as well as the total net volume of electricity purchased and the volume of renewable electricity purchased on a consolidated basis to comply with the proposed disclosure requirements. We consider very few entities are capable of obtaining such information at the moment, and thus it is expected that a significant amount of investment, including IT system implementation, has to be made by many entities to comply with the disclosure requirement. We further expect that auditors will have a very hard time auditing the completeness and accuracy of such information on electricity that is aggregated and disclosed by entities. Also, in many cases, the proportion of the total renewable electricity sold to the total electricity sold and/or the proportion of the total renewable electricity purchased to the total electricity purchased should be minimal for most of the reporting entities on a consolidated basis. In such cases, disclosures made by those entities are also expected to be minimal, which would be like 'the amount is immaterial when compared to the total volume of

electricity sold or to the total net volume of electricity purchased.' Accordingly, we highly recommend the disclosure requirement be applied to certain contracts as we commented for paragraph 42T.

- Paragraph 42V requires entities to disclose the average market price per unit of electricity, although it is unclear how to calculate the average market price, given that utility charges are set differently among countries and jurisdictions and will fluctuate depending on the time used. Another point is that the Exposure Draft does not explain clearly why only electricity is subject to the disclosure requirement, given that oil and other commodities also have market prices and are exposed to market price fluctuation risks in the same way. Also, paragraph 42V(d) requires that if the estimated electricity purchase cost calculated using the average market price differs substantially from the total actual cost incurred for the purchase, entities should provide a qualitative explanation of the key reasons for this difference. We believe this requirement can be improved by providing the definition of 'differs substantially' to enhance the effectiveness of the disclosure and requiring not only qualitative but also quantitative information for disclosure purposes.

In summary, we are concerned the proposed disclosure requirements in Question 4 will not only put undue effort on preparers of financial statements, but also cause auditors to spend enormous amount of time and cost in auditing the completeness and accuracy of such disclosures. We suggest costs and benefits be considered carefully, because the usefulness of such information is quite questionable. If any disclosures were to be made, further improvement would be required to address the above-mentioned concerns.

| **Question 5—Proposed disclosure requirements for subsidiaries without public accountability** |
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| 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.<br>Do you agree with these proposals? Why or why not?<br>If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why? |

**Comment:**

Although we overall agree with the IASB's proposal to develop specific disclosure requirements for contracts for renewable electricity that are within the scope of the

Exposure Draft, further improvement is required for the proposed disclosures for the same reasons provided in our comment to Question 4.

| **Question 6—Transition requirements** |
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| The IASB proposes to require an entity to apply:<br>(a) the amendments to the own-use requirements in IFRS 9 using a modified retrospective approach; and<br>(b) the amendments to the hedge accounting requirements prospectively.<br>Early application of the proposed amendments would be permitted from the date the amendments were issued.<br>Do you agree with these proposals? Why or why not?<br>If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why? |

**Comment:**

We disagree with the proposal to apply the amendments to the hedge accounting requirements prospectively. Further, exceptions should be provided for first-time adopters.

If an entity can prove that the only reason why it did not apply hedge accounting under the current IFRS Standards is because of its difficulty in meeting hedge accounting requirements (i.e. a mismatch between the volume of hedged items and hedging instruments), no harm effect shall be created due to the use of hindsight even when the entity is allowed to retrospectively apply the Exposure Draft. Therefore, in such cases, we suggest retrospective application of the hedge accounting requirements should be permitted.

We also believe exceptions should be provided for first-time adopters. According to paragraph B6 of IFRS 1, transactions entered into before the date of transition to IFRSs shall not be retrospectively designated as hedges. However, PPAs subject to the Exposure Draft are recently novel transactions whose accounting treatments may not be clearly determined in some jurisdictions. If, for example, virtual PPAs are not accounted for as derivatives under such circumstances, and the amount of the net settlement under virtual PPAs is presented together with the cost of electricity purchased as if it was part of risk management of the electricity purchase, it could result in an accounting treatment creating the same effect as applying cash flow hedge accounting using the virtual PPA as a hedging instrument under the previous accounting standards. In such cases, if the PPA is measured as a derivative as of the date of transition to IFRSs and hedge accounting is simply applied

prospectively after the transition date, not only it will significantly complicate accounting treatments for hedge accounting, but also it may not provide useful financial information to users of financial statements. Accordingly, if a retrospective approach is allowed as a transition in the Exposure Draft, the IASB should also consider providing certain exceptions to accounting treatments upon the first-time adoption.

| **Question 7—Effective date** |
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| 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.<br>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?<br>If you disagree, what effective date would you suggest instead and why? |

**Comment:**

We agree with the planned effective date for the proposed amendments to accounting treatments, including those for the own-use exemption and hedge accounting. However, we strongly recommend substantially improving the disclosure requirements in the Exposure Draft before discussing the effective date. Or, if the IASB intends to maintain the disclosure requirements as proposed, it is essential to provide entities with a preparation period for at least two to three years to comply with the requirements.

Given that the purpose of the Exposure Draft is to provide exceptions to the requirements in IFRS 9 for the own-use exemption and hedge accounting in an extremely short period in response to a strong demand from stakeholders, we agree with setting the effective date as of 1 January 2025 for the proposed amendments to the accounting treatments. However, we believe it is difficult for preparers to comply with all the disclosure requirements proposed in the Exposure Draft in such a short period. Preparers would be required to obtain a wide range of information, including terms and conditions of electricity contracts, the volume of electricity and market prices, in order to follow the disclosure requirements proposed in the Exposure Draft. This would require preparers to establish a robust IT system and other data gathering scheme on a consolidated basis, which would require a significant amount of time for preparation. Therefore, we strongly recommend the IASB to either substantially reduce and/or improve the disclosure requirements, or to extend the effective date exclusively for the disclosure requirements for another two to three years.

Yours faithfully,

Eriko Otokozawa
Executive Board Member－Business Accounting Standards and Practice/Corporate Disclosure
The Japanese Institute of Certified Public Accountants