IFRS Accounting

# Staff paper

Agenda reference: 3B

**IASB® Meeting**

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| Date | **October 2024** |
| Project | **Power Purchase Agreements (PPAs)** |
| Topic | **Disclosures** |
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## Purpose of this paper

1. In the Exposure Draft *Contracts for Renewable Electricity* (Exposure Draft), the IASB proposed disclosures for the contracts within the scope of the proposed amendments. This paper provides our analysis of the feedback on Questions 4 and 5 of the Exposure Draft, feedback from the June 2024 joint meeting of the Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) and feedback from the September 2024 meeting of the Accounting Standards Advisory Forum (ASAF). We also include in this paper our recommendations on how to proceed with these proposals and ask whether you agree with our recommendations.

## Summary of staff recommendations and question to the IASB

2. We recommend that the IASB finalise the proposed disclosure requirements, including for an entity applying IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, but subject to:

    (a) limiting the scope of the disclosures to contracts accounted for applying the proposed amendments. These contracts consist of:

  - (i) contracts for the receipt of nature-dependent electricity that are accounted for as executory contracts in accordance with the own-use amendments; and
  - (ii) contracts designated in a hedging relationship as a hedging instrument in accordance with the hedge-accounting amendments.

- (b) clarifying that for contracts in (a)(i), the entity discloses information about the contracts' terms and conditions that expose an entity to:
  - (i) the variability of the contracted amount of nature-dependent electricity; and
  - (ii) the risk of oversupply of electricity in any delivery interval.
- (c) clarifying that for contracts in (a)(ii), the entity satisfies the proposed requirement to disclose information about the contracts' terms and conditions by disaggregating for NDE contracts in its financial statements the relevant disclosures required by paragraph 23A of IFRS 7 *Financial Instruments: Disclosures*.
- (d) requiring an entity to disclose the aggregated expected cash flows from buying electricity under the entity's contracts in (a)(i) and qualitative information about how an entity manages the risk that these contracts might become onerous contracts. The entity applies its judgement determining the appropriate time bands within which to aggregate the future expected cash flows.
- (e) requiring an entity to disclose qualitative and quantitative information about how the entity determined that it remained a net-purchaser under the contract for the reporting period, particularly information about the effects on its financial performance of:
  - (i) purchases under the contracts in (a)(i);
  - (ii) sales of unused electricity; and
  - (iii) purchases of electricity to offset these sales.

(f) amending paragraph 5 of IFRS 7 to ensure contracts in (a)(i) are subject to the proposed disclosures to be included in IFRS 7.

| Question for the IASB |
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| 1. Does the IASB agree with our recommendations included in paragraph 2 of the paper? |

## Terminology

3. In this paper we use the following terms for ease of reading:[1]

| Term | Explanation |
| --- | --- |
| Hedge-accounting amendments | the proposed amendments that we discuss in Agenda Paper 3A for this meeting. |
| NDE contract | a contract that has the specified characteristics used to scope the proposed amendments and that we discussed in Agenda Paper 3A for the IASB's September meeting. NDE stands for 'Nature-Dependent Electricity'. |
| NDE contract for delivery | an *NDE contract* for the delivery of electricity that can be settled net. **Unless stated otherwise, we assume these contracts are accounted for as executory contracts applying only the *own-use requirements*.** |
| NDE contract for receipt | an *NDE contract* for the receipt of electricity that can be settled net. **Unless stated otherwise, we assume these contracts are accounted for as executory contracts applying the *own-use amendments*.** |
| NDE contract for difference | an *NDE contract* that requires net settlement of the difference between the prevailing market price and the contractually agreed price for the contracted volume of electricity without the obligation to deliver the underlying. **These contracts are financial instruments accounted for at fair value.** |

[1] We make use of these terms for the purposes of this agenda paper. The wording used in drafting any final amendments might differ.

| | |
|---|---|
| own-use amendments | the proposed amendments that we discussed in Agenda Paper 3B for the IASB's September meeting. The amendments deal with the additional considerations if an entity performs an *own-use assessment* for an *NDE contract for receipt*. |
| own-use assessment | an entity's assessment of whether it holds a contract 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. |
| own-use requirements | the current requirements in paragraph 2.4 of IFRS 9 *Financial Instruments*. |

## Structure of the paper

4. We structured this paper by grouping feedback on the proposed disclosures. In this paper we analyse the feedback about:
   (a) the need for the proposed disclosures (paragraphs 5–12);
   (b) the scope of the proposed disclosures (paragraphs 13–40);
   (c) the terms and conditions of NDE contracts (paragraphs 41–54);
   (d) expected electricity purchases or fair value information (paragraphs 55–74);
   (e) the effect of NDE contracts for receipt on financial performance (paragraphs 75–88);
   (f) subsidiaries without public accountability (paragraphs 89–92); and
   (g) other clarifications (paragraphs 93–94).

## The need for the proposed disclosures

### *Proposals*

5. The IASB proposed that an entity discloses information about its *NDE contracts* that enables users of financial statements (investors) to understand how these contracts

affect the amount, timing and uncertainty of the entity's future cash flows and the entity's financial performance for the reporting period.

6. Paragraphs BC40–BC42 of the Basis for Conclusions on the Exposure Draft explained that stakeholders informed the IASB that they want greater transparency about NDE contracts, particularly those that would be accounted for as executory contracts (and not as derivatives at fair value through profit or loss) after applying the proposals. Other stakeholders said that because different types of NDE contracts (*NDE contracts for receipt* and *NDE contracts for difference*) result in the same economic outcome and expose the entity to similar risks, disclosures are needed for both types of NDE contracts. The IASB agreed with these stakeholders.

### *Feedback and analysis*

7. Most respondents (including companies, an investor group and regulators) agreed with the need for disclosures and the proposed disclosure objectives. Some of these respondents said that they agreed with the need for disclosures because of the unique risks that arise from NDE contracts. Others also said they acknowledge the fact that companies would have been required to provide much more disclosures than those proposed, had NDE contracts for receipt been accounted for under IFRS 9 and measured at fair value. Most of these respondents, however, disagreed with many of the proposed items of information. We discuss this feedback later in this paper.

8. A few respondents (including companies and standard-setters) disagreed with the need for the proposed disclosures. Some said that existing disclosure requirements in IFRS Accounting Standards are sufficient. Others said that the proposed disclosures are not proportional to disclosures required for other executory contracts and, overall, the costs to prepare the information would outweigh the benefits. At the June 2024 joint meeting of CMAC and GPF, some GPF members also commented on the extent of disclosures required for these contracts compared to the disclosures required for other contracts to which the own-use requirements apply. One respondent suggested the IASB extend the disclosures to apply to all executory contracts.

9. We continue to agree with the IASB's proposals to require disclosures for NDE contracts and with the reasons provided by respondents that also agreed with the need for disclosures. We agree primarily because of the potential affect the unique risks that arise from these contracts have on an entity's future cash flows and financial performance.

10. Except for IFRS 15 *Revenue from Contracts with Customers*, IFRS Accounting Standards do not require disclosure of specified items of information for executory contracts. IFRS Accounting Standards do include general disclosure requirements that might apply, for example, paragraph 17(c) of IAS 1 *Presentation of Financial Statements* (or paragraph 20 of IFRS 18 *Presentation and Disclosure in Financial Statements*) that requires additional disclosures when compliance with the specific requirements in our Standards is insufficient to enable investors to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. We, therefore, disagree with respondents that said current disclosure requirements are sufficient for NDE contracts. As explained in paragraph 9, disclosures are needed to enable investors to understand the effect of the unique risks from these contracts on the entity—particularly because these unique risks determine the proposed accounting treatment (applying the *own-use amendments* and *hedge-accounting amendments*).

11. We acknowledge respondents' comments that the proposed disclosures are not proportional to disclosures required for other executory contracts. We agree that IFRS Accounting Standards might be improved by disclosures for all executory contracts. But such a project would require the IASB to evaluate a wide range of contracts and would go beyond the scope of this narrow-scope project.

### *Staff recommendations*

12. We recommend that the IASB finalise the proposed disclosure requirements for NDE contracts, subject to the changes we recommend in this paper.

## The scope of the proposed disclosures

### *Proposals*

13. The IASB proposed disclosures for NDE contracts to which IFRS 9 applies, including those that are excluded from its scope after applying the own-use requirements. The IASB did not propose to include in the scope of the proposed disclosures NDE contracts accounted for under other IFRS Accounting Standards, like IFRS 10 *Consolidated Financial Statements* or IFRS 16 *Leases*.

14. The IASB proposed that the same disclosure objectives apply to all NDE contracts. However, considering the disclosure requirements of other IFRS Accounting Standards, like IFRS 7, IFRS 13 *Fair Value Measurement* and IFRS 15, the IASB proposed different items of information for different NDE contracts to satisfy the disclosure objectives. The IASB's proposals can be illustrated as follows:

| **Items of information** | **NDE contracts for receipt** | **NDE contracts for delivery** | **NDE contracts at fair value** (see paragraph 16) |
|---|---|---|---|
| *Information that enables investors to understand the effects on the entity's future cash flows* | | | |
| terms and conditions | ✓ | ✓ | ✓ |
| volume of electricity expected to sell or purchase over contract period; or | ✓ | ✓ | n/a |
| fair value disclosures as alternative | ✓ | ✓ | |
| *Information that enables investors to understand the effects on the entity's financial performance* | | | |
| proportion of total electricity sales or purchases | ✓ | ✓ | ✓ |

| | | | |
|---|---|---|---|
| additional items of information for purchasers under these contracts | ✓ | n/a | only for purchasers under these contracts |

16. In the proposals, NDE contracts at fair value in accordance with IFRS 9 consist of:

    (a) NDE contracts for difference for both parties to the contract and irrespective of whether a contract has been designated in a hedging relationship;

    (b) NDE contracts for delivery that fail the own-use assessment in accordance with the own-use requirements or have been designated as measured at fair value in accordance with paragraph 2.5 of IFRS 9; and

    (c) NDE contracts for receipt that fail the own-use assessment in accordance with the own-use amendments, or satisfies the own-use assessment applying the own-use amendments but have been designated as measured at fair value in accordance with paragraph 2.5 of IFRS 9.

17. The IASB also said that it does not expect an entity to disclose information for each of its NDE contracts separately. An entity refers to paragraph B3 of IFRS 7 to consider the appropriate level of aggregation or disaggregation of information.

### *Feedback and analysis*

18. Many respondents disagreed with the proposed scope of the disclosures. Different respondents emphasised different aspects about the proposed scope.

19. Many respondents said that no additional disclosures are required for NDE contracts accounted for as financial instruments at fair value. In their view, the disclosures required by IFRS 7 and IFRS 13 are already sufficient. A few of these respondents were concerned that the proposed disclosures would be required for energy traders with typically large volumes of NDE contracts that are accounted for at fair value. In their view, the costs to prepare the proposed disclosures would outweigh the benefit.

20. A few respondents that sell and deliver electricity under NDE contracts (NDE contracts for delivery accounted for as executory contracts) said that the proposed disclosures might be misleading because it emphasises only a part of their business. For their NDE contracts for delivery, these respondents said that the disclosures required by IFRS 15 are sufficient for investors to understand the effect of these contracts on the entity's future cash flows and financial performance.

21. To address the concerns identified in the feedback, a few respondents suggested that the proposed disclosures need to apply only to NDE contracts for receipt accounted for as executory contracts after applying the own-use amendments and to NDE contracts at fair value that are designated in a hedge relationship using the hedge-accounting amendments. A few other respondents suggested that NDE contracts at fair value (irrespective of whether these contracts are designated in a hedge relationship) should not be subject to the proposed disclosures but only to the disclosures required by IFRS 7 and IFRS 13.

22. Members from ASAF encouraged the IASB to continue requiring disclosures for contracts that are accounted for as executory contracts applying the amendments. In their view, the disclosures need to enable users of financial statements to understand the risks that arise from these contracts. One member also encouraged the IASB to carefully balance the benefits of the disclosures with the costs to prepare the proposed disclosures.

23. Considering the disclosure objectives of IFRS 7, IFRS 13 and IFRS 15, we acknowledge that the information an entity is required to provide under these Standards aims to achieve very similar objectives as the information required by the proposals. We, therefore, acknowledge that IFRS 7, IFRS 13 and IFRS 15 and the proposals would result in similar (although not the same) information to be included in the financial statements of entities that account for its NDE contracts at fair value and of entities that deliver electricity under NDE contracts and applies IFRS 15. (The IASB stated in proposed paragraph 42W of IFRS 7 that an entity need not duplicate

information that is already disclosed in accordance with other IFRS Accounting Standards.)

24. We map some of the disclosures required by IFRS 7, IFRS 13 and IFRS 15 to the IASB's proposed items of information for NDE contracts at fair value and NDE contracts for delivery (this is not meant to be an exhaustive list):

| **Items of information** | **NDE contracts for receipt** | **NDE contracts for delivery** | **NDE contracts at fair value** |
|---|---|---|---|
| *Information that enables investors to understand the effects on the entity's future cash flows* | | | |
| terms and conditions | Discussed later in this paper | Paragraph 119 of IFRS 15 | Paragraph 23A of IFRS 7 (see paragraph 26) and paragraph 93(d) of IFRS 13 |
| volume of electricity expected to sell or purchase over contract period; or | | Paragraph 120 of IFRS 15 | n/a |
| fair value disclosures as alternative | | | |
| *Information that enables investors to understand the effects on the entity's financial performance* | | | |
| proportion of total electricity sales or purchases | Discussed later in this paper | Paragraphs 114–115 of IFRS 15 | Paragraph 93(f) of IFRS 13 |
| additional items of information for purchasers under these contracts | | n/a | Paragraph 93(f) of IFRS 13 |

26. Paragraph 23A of IFRS 7 requires that an entity discloses by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and

uncertainty of future cash flows of the entity. We note however, that IFRS 7 and IFRS 13 do not require information about the terms and conditions of NDE contracts at fair value if the contracts are not designated in a hedge relationship.

27. We also note that the proposed disclosures would have required an entity to provide disaggregated information for NDE contracts. Considering the disaggregation requirements in paragraph B3 of IFRS 7, paragraph 92 of IFRS 13 and paragraphs 111 and 114–115 of IFRS 15, we think that these Standards would require an entity to disaggregate information about its NDE contracts if such additional information is needed to meet the disclosure objectives of those Standards.

28. In light of our analysis in paragraphs 23–27 we agree with respondents that the proposed disclosures are *not* needed for:

   (a) NDE contracts for delivery—the requirements of IFRS 15 as outlined above, in our view, are sufficient. We note that since publishing the Exposure Draft, the IASB (at its July 2024 meeting) concluded that, overall, the requirements in IFRS 15 are working as intended.

   (b) NDE contracts at fair value not designated in a hedging relationship applying the hedge-accounting amendments—the requirements of IFRS 7 and IFRS 13 as outlined above, in our view, are sufficient. We note that IFRS 7 would not require an entity to disclose information about the terms and conditions of these contracts. However, we think the fair value measurement and the supporting disclosures required by paragraph 93(d) of IFRS 13 (as relevant) provide sufficient information about the effect of these contracts on an entity's future cash flows.

29. For NDE contracts at fair value that are designated in a hedging relationship applying the hedge-accounting amendments, we continue to agree with the IASB's view in paragraph BC41 of the Basis for Conclusions on the Exposure Draft that disclosures are needed for the different types of NDE contracts to which the amendments apply because these different types result in the same economic outcome and expose the entity to similar risks. We also note that at its supplementary meeting in August 2024

a few IASB members commented in response to the summary of the feedback that, in their view, it would be useful to retain disclosures that enable investors to understand an entity's exposure to NDE contracts, irrespective of how the contracts are accounted for. Considering IFRS 7 does not require information about the terms and conditions of contracts not designated in a hedging relationship, we think the IASB should continue to require disclosures of information about the terms and conditions of NDE contracts at fair value that are designated in a hedging relationship applying the hedge-accounting amendments. We discuss later in this paper how we think an entity complies with this proposed requirement.

30. Therefore, we think that a possible approach to balance the IASB's intention with the feedback is to limit the scope of the disclosures to:

(a) NDE contracts for receipt accounted for as executory contracts applying the own-use amendments; and

(b) NDE contracts at fair value that are designated in a hedging relationship applying the hedge-accounting amendments.

31. We think this approach addresses concerns raised by respondents for energy traders (paragraph 19) and focuses disclosures on those contracts for which the amendments result in a change in accounting and thereby ensuring disclosures remain proportional to these narrow-scope amendments.

*Alternative considered*

32. We considered whether to retain in the scope NDE contracts for receipt that fail the own-use assessment in accordance with the own-use amendments (initially or subsequently), or satisfies the own-use assessment applying the own-use amendments but have been designated as measured at fair value in accordance with paragraph 2.5 of IFRS 9 (paragraph 16(c)), and also have not been designated in a hedging relationship applying the hedge-accounting amendments.

33. As explained in paragraphs 24–48 of Agenda Paper 3B for the IASB's September meeting, the specified characteristics used to scope the proposed amendments when coupled with an entity receiving electricity when it is produced, give rise to unique risks for the entity:

    (a) the contractual features expose the entity to the risk of oversupply of electricity in any delivery interval; and

    (b) the entity does not have the practical ability to avoid selling any oversupply of electricity at the market-determined time, based on the design and operation of the market in which electricity is bought.

34. These risks do not arise from NDE contracts for difference because an entity does not have an obligation to take receipt of the contracted volume of electricity when it is produced by the referenced production facility.

35. The effect of these unique risks on an entity's future cash flows are not reflected in the fair value of the NDE contract itself because the future sales transactions arise outside of the contract. There could, therefore, be an argument for the IASB to require disclosure of information about, at least, the terms and conditions of these NDE contracts for receipt even though they are measured at fair value. This is because the terms and conditions (as we discuss later in this paper) enable investors to understand an entity's exposure to the risk of oversupply of electricity.

36. However, for the same reasons included in paragraph 28(b), we think the IASB need not include in the scope of the proposed disclosures NDE contracts for receipt measured at fair value. Again, we note the IASB's view in paragraph BC41 of the Basis for Conclusions on the Exposure Draft that NDE contracts for receipt and NDE contracts for difference result in the same economic outcome and expose the entity to similar risks. If fair value measurement and the supporting disclosures provide sufficient information about the effects of NDE contracts for difference on an entity's future cash flows, we think this information is equally sufficient for NDE contracts for receipt measured at fair value.

37. In addition, we think that our approach balances the need for useful information about NDE contracts to which the proposed amendments are applied and, as noted before, keeping the disclosures proportional to these narrow-scope amendments.

### *Staff recommendations*

38. On balance we recommend that the IASB:

(a) require the proposed disclosures for NDE contracts for receipt, subject to the changes we recommend later in this paper.

(b) requires an entity to disclose only information about the terms and conditions of the NDE contracts at fair value designated in a hedging relationship applying the hedge-accounting amendments.

39. The effect of our recommendations in paragraph 38 can be illustrated as follows:

| **NDE contracts <u>included</u> in the scope of the proposed disclosures** | **NDE contracts <u>excluded</u> from the scope of the proposed disclosures** |
|---|---|
| • NDE contracts for receipt (that is, accounted for as executory contracts applying the own-use amendments); and<br><br>• NDE contracts for difference for both parties, or NDE contracts for delivery or for receipt at fair value, designated in a hedging relationship applying the hedge-accounting amendments (information about the terms and conditions only). | • NDE contracts for delivery;<br><br>• NDE contracts for difference for both parties that have not been designated in a hedging relationship applying the hedge-accounting amendments;<br><br>• NDE contracts for delivery that fail the own-use assessment in accordance with the own-use requirements, or have been designated as measured at fair value in accordance with paragraph 2.5 of IFRS 9, and that have not been designated in a hedging relationship applying the hedge-accounting amendments; and |

| | |
|---|---|
| | • NDE contracts for receipt that fail the own-use assessment in accordance with the own-use amendments, or satisfy the own-use assessment applying the own-use amendments but have been designated as measured at fair value in accordance with paragraph 2.5 of IFRS 9, and that have not been designated in a hedging relationship applying the hedge-accounting amendments. |

40. The remainder of this paper is drafted assuming the IASB agrees with our recommendations in paragraph 38. **That is, when we refer to NDE contracts in the remaining sections of this paper, we are limiting the population of contracts to those contracts listed in the left column of the table in paragraph 39 (unless specifically stated otherwise).**

## The terms and conditions of NDE contracts

### *Proposals*

41. The IASB proposed requiring an entity to disclose the terms and conditions of NDE contracts. As noted before, the IASB stated that an entity refers to paragraph B3 of IFRS 7 to consider the appropriate level of aggregation or disaggregation.

42. The IASB intended for this item of information to contribute to an investor's understanding of how these contracts affect the amount, timing and uncertainty of the entity's future cash flows and included in its proposals examples of terms and conditions—the remaining contract duration, the type of pricing (including the reference market and whether the contracts include price adjustment clauses), minimum or maximum volume, cancellation clauses and whether the contracts include renewable energy certificates (or similar attributes).

### *Feedback and analysis*

43. Most respondents did not disagree with the IASB's proposal for an entity to disclose the terms and conditions of NDE contracts. A few respondents explicitly agreed with this proposal because it adds transparency to the financial statements about NDE contracts and this proposal satisfies the disclosure objectives. A few of these respondents caveated their feedback that the proposal provides useful information only about NDE contracts for receipt. Another few respondents said that information about the terms and conditions is the only disclosures that the IASB needs to add to IFRS Accounting Standards.

44. We agree with respondents that said information about the terms and conditions provide useful information. We think that information about the terms and conditions of NDE contracts identifies that an entity has these types of contracts (that is, adds transparency) and contributes to an investor's understanding of how these contracts affect the entity's future cash flows.

45. We disagree with respondents that said information about terms and conditions is the only requirement to be included in the proposed amendments. If we consider paragraphs BC45–BC46 of the Basis for Conclusions on the Exposure Draft, investors informed the IASB that for NDE contracts for receipt they would find useful pricing information and an indication of the fair value of the contract at the reporting date. We do not think only information about the terms and conditions of these contracts would enable investors to understand how these contracts affect the entity's future cash flows, particularly because IFRS Accounting Standards do not require disclosure of specified items of information for executory contracts.

46. As discussed in paragraph 29, we, however, agree with respondents that only information about terms and conditions is needed in the proposals for NDE contracts at fair value that are designated in a hedging relationship applying the hedge-accounting amendments. This is because of the complementary disclosures already required by IFRS 7 and IFRS 13.

47. At the June 2024 joint meeting of CMAC and GPF, CMAC members said that, in order to be useful to investors, the proposal to disclose terms and conditions of the contracts should be more specific about the items of information to be disclosed. However, a few respondents disagreed with requiring information about the type of pricing, including price-adjustment clauses and cancellation clauses because this information could be commercially sensitive or even breach competition laws. They said this is particularly true in jurisdictions where an entity's counterparty is a state-owned entity or in jurisdictions where the market for NDE contracts is still developing—in the latter situation the number of contracts in the market is low and pricing information that results from extensive negotiations are highly sensitive. A few respondents said that if an entity only has one substantial contract, or terms and conditions of contracts across multiple jurisdictions are substantially different, entities might find it difficult to aggregate information in a meaningful way—and, in some cases the entity will not be able to avoid providing commercially sensitive information.

48. We acknowledge the concerns raised by respondents about disclosing certain terms and conditions under specific circumstances. We also note the request from CMAC members that the required items of information be as specific as possible. We further note that the IASB included only as examples of terms and conditions information about the types of pricing and cancellation clauses.

49. In thinking about how to address the feedback, we also considered that some respondents, commenting about the disclosures more generally, suggested that the proposed disclosures need to focus on providing information about the unique risks of NDE contracts—that is, the reasons why the IASB considered it needed to undertake this narrow-scope standard-setting project.

50. We think that the IASB would be able to respond to feedback while preserving its intension with this proposal by clarifying the proposal to disclose information about the terms and conditions.

51. If an entity accounts for its NDE contracts at fair value and designates these contracts applying the hedge-accounting amendments, we think the IASB could clarify that an entity satisfies the proposed requirement by providing the information required by paragraph 23A of IFRS 7. Therefore, the entity satisfies the proposed requirement by disaggregating for NDE contracts in its financial statements the relevant disclosures required by paragraph 23A. As we already noted, paragraph 23A requires that an entity disclose by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity.

52. We agree with respondents that said the proposed disclosures need to focus on providing information about the unique risks of NDE contracts. We also agree with CMAC members that additional specificity could be added to the proposal to disclose the terms and conditions.

53. Therefore, we think a possible approach to address the feedback is for the IASB to remove the examples of terms and conditions included in the Exposure Draft and for the IASB to require an entity to, among others, include information about the terms and conditions of NDE contracts for receipt that enable investors to understand the terms and conditions that:

(a) expose an entity to variability of the contracted amount of nature-dependent electricity—the second specified characteristic included in the scope of the proposed amendments; and

(b) expose the entity to the risk of oversupply of electricity in any delivery interval—a risk arising from NDE contracts for receipt that contribute towards the entity being permitted to apply the additional considerations included in the own-use amendments in its own-use assessment.

### *Staff recommendations*

54. We recommend that the IASB proceeds with requiring disclosure of information about the terms and conditions of NDE contracts. Our recommendation is subject to the IASB:

    (a) clarifying that for NDE contracts for receipt accounted for as executory contracts, the entity includes information about the terms and conditions that expose an entity:

        (i) to the variability of the contracted amount of nature-dependent electricity; and

        (ii) to the risk of oversupply of electricity in any delivery interval.

    (b) clarifying that for its NDE contracts at fair value designated in a hedging relationship applying the hedge-accounting amendments, the entity satisfies the proposed requirement by disaggregating for NDE contracts in its financial statements the relevant disclosures required by paragraph 23A of IFRS 7.

## Expected electricity purchases or fair value information

### *Proposals*

55. For NDE contracts for receipt, the IASB proposed requiring an entity to disclose either:

    (a) the fair value of the contracts at the reporting date, accompanied by the information required by paragraphs 93(g)–(h) of IFRS 13.

    (b) the amount of electricity a seller under the contracts expects to sell or a purchaser under the contracts expects to purchase over the remaining duration of the contracts. An entity is permitted to provide this information as a range for each of these periods: not later than one year; later than one year and not later than five years; and later than five years. An entity shall also disclose the methods and assumptions the entity used in preparing the information, any changes in those methods and assumptions since the previous reporting period, and the reasons for such changes.

56. Together with the disclosure of the terms and conditions, the IASB intended for this item of information to contribute to an investor's understanding of how NDE contracts affect the entity's future cash flows.

### Feedback and analysis

#### *Feedback about fair value information*

57. A few respondents commented specifically on the IASB's proposal to permit, as an alternative, disclosure of the fair value of NDE contracts for receipt.

58. Of these respondents, many respondents said that the cost of estimating the fair value of NDE contracts for receipt (when these contracts are not managed or reported on a fair value basis) outweighs the benefit of the information. Costs include obtaining expert valuation advice and auditing costs. A few of these respondents said that due to the high level of estimation uncertainty of estimating the fair value (from a market-participant's perspective) results in information that is not comparable between entities. Other said that fair value information is misleading because an entity's intention with entering into NDE contracts for receipt is to reduce uncertainty of future cash flows.

59. Of the respondents that commented, a few respondents disagreed with disclosing the fair value of executory contracts and suggested information about expected purchases under the contract should be mandatory.

60. One respondent (an investor organisation), however, said that the IASB needs to require only disclosure of the fair value:

> We understand that determining the fair value of physical and virtual PPAs is complex and subject to high levels of measurement uncertainty… However, to ensure that the market

does not expand in an unsound manner where contracting parties enter into contracts without fully understanding the counterparty risk, and to enable users to fully understand how the contracts affect the amount, timing and uncertainty of the entity's future cash flows, we encourage the IASB to require an entity to disclose only fair value. We believe that our proposed disclosure requirement would encourage market participants to standardize how fair value is determined, thereby contributing to the sound development of the market.

61. We agree with the investor organisation that fair value information, even if using a level 3 input (as defined in IFRS 13), might be useful information to enable investors to understand how the contracts affect the entity's future cash flows. We, however, acknowledge the concerns raised by respondents about the costs of preparing fair value information, particularly if NDE contracts for receipts are neither required under IFRS Accounting Standards to be measured at fair value, nor are managed on a fair value basis by the entity.

*Feedback about expected purchases of electricity under the contract*

62. Most respondents did not disagree with this proposal. One respondent (a company) said that disclosures about the terms and conditions and expected purchases is reasonable and well-balanced. Another respondent (also a company) said that disclosures about the terms and conditions and expected purchases, in combination with the requirement in paragraph 114(c)(iv) of IAS 1 *Presentation of Financial Statements*[2] to disclose information about unrecognised contractual commitments, provides useful information about NDE contracts for receipt.

[2] In our view, the requirements in paragraph 114 of IAS 1 (and paragraph B112 of IFRS 18 *Presentation and Disclosure in Financial Statements*) deals with how an entity orders and groups the notes in its financial statements. But because paragraph 114(c)(iv) does not include a direct reference to another IFRS Accounting Standard, we understand why this respondent refers to this paragraph as a requirement for disclosure of unrecognised contractual commitments

63. A few respondents (including companies) said that for disclosures in financial statements (as opposed to sustainability disclosures), the amount of expected electricity purchases is less relevant compared to the expected cash flows. They noted that although the proposals could be read to not prevent an entity from disclosing the expected cash flows, they suggest the IASB instead *requires* disclosure of expected cash flows.

64. A few other respondents said that information about the amount of expected electricity purchases, by itself, is insufficient to enable investors to understand how the contracts affect the entity's future cash flows. The investor organisation quoted in paragraph 60 also noted that, in their view, information about the expected amount of electricity purchases is completely different in nature to the fair value disclosures. In their view, most NDE contracts for receipt are very long-term fixed-price contracts that are highly risky and have significant fair value volatility. As a result, the contracting parties bear significant counterparty risk over the life of the contract. Fair value is an important component of providing information about this counterparty risk. In context of counterparty risk, another respondent suggested the IASB reminds entities that IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires entities to assess whether contracts are onerous.

65. A few others suggested the IASB replaces the proposed requirement to disclose expected purchases under the contract with requirements that is similar to those in paragraph 74(c) of IAS 16 *Property, Plant and Equipment* (disclosure of the amount of contractual commitments for the acquisition of property, plant and equipment).

66. A few respondents disagreed with the proposal to disclose the expected purchases because, in their view, the proposed requirement:

(a) results in excessive disclosures;

(b) appears to be punitive to those entities entering into NDE contracts for receipt;

(c) requires information that is not likely to be useful to investors because an important reason for entering into NDE contracts for receipt is access to renewable electricity at a fixed price; and

(d) is costly to apply, particularly for entities that report more frequently.

*Analysis of the feedback*

67. Considering the feedback in paragraphs 57–60 and paragraphs 62–66, we think the IASB can respond to this feedback in a balanced way by requiring an entity to disclose:

(a) the aggregated expected future cash flows from buying electricity under the entity's NDE contracts for receipt; and

(b) qualitative information about how an entity manages the risk that its NDE contracts for receipt might become onerous contracts.

68. We think the benefits of our approach are:

(a) it provides information about the future cash flows that arise from these typically long-term contractual commitments. The information reflects the entity's commitments that arise from it wanting to secure access to the specific type of electricity.

(b) it incorporates information about the pricing of the contracts without requiring an entity to disclose detailed information about the pricing.

(c) it provides information about how an entity manages its 'counterparty risk' through the information about how an entity manages the risk that its NDE contracts for receipt might become onerous contracts.

(d) it requires less additional costs to prepare the information as these estimates are entity-specific and can be derived from an entity's budgets or other management information—that is, these estimates need not be based on market specific information as required by IFRS 13.

(e) provides information about the relative size of the entity's exposure arising from these contracts in monetary terms.

69. We acknowledge the drawbacks of our approach are:

(a) it provides no information about whether the contract is in an unfavourable or favourable position at the reporting date—information that fair value disclosures would have provided. We mitigate this risk partly by recommending that the IASB requires disclosure about how an entity manages the risk that its NDE contracts for receipt might become onerous contracts. We think the loss of residual information a fair value measurement would have provided is an acceptable loss of information to balance the costs of estimating the fair value of these contracts.

(b) an entity would need to incur additional costs to provide the information of all its NDE contracts for receipt. We acknowledge the costs involved. The more contracts an entity has, the costlier this exercise might be. We think, however, this is an acceptable cost compared to the benefits of the additional information about an entity's commitments arising from these contracts.

(c) it provides no direct relief for entities that reports more frequently. We note however that paragraphs 15–15C of IAS 34 *Interim Financial Reporting* already includes requirements about the extent disclosures are required in an interim financial report.

70. For these reasons, we think disclosing the aggregated expected future cash flows from buying electricity under the entity's NDE contracts for receipt and information about how an entity manages the risk of its NDE contracts for receipt becoming onerous contracts are balanced enhancements to the proposals in the Exposure Draft.

***Alternative considered***

71. We considered, but decided against, an approach that retained an alternative disclosure option to disclose the aggregated amount of electricity (in units of

electricity) an entity expects to purchase under its NDE contracts for receipt. This is because:

(a) feedback indicated that information about the expected amount of electricity purchases is less useful without the contractual pricing information.

(b) the Exposure Draft included a proposal for an entity to disclose the average market price per unit of electricity in the markets in which the entity purchased electricity. The alternative disclosure of the expected amount of electricity might have been enhanced by information about the average market price. However, as indicated in paragraphs 76–77 in the next section, feedback also identified challenges with determining the average market price.

(c) we think requiring an entity to disclose the expected cash flows is not fundamentally different to disclose the expected amount of electricity purchases. Therefore, having the proposal as an alternative is less needed when compared to fair value information.

(d) in our view, the most substantial criticism (as listed in paragraph 66) against the IASB's proposal to disclose expected purchases is about the costs involved in preparing the information. We expect this criticism to also apply to disclosing the expected cash flows. We acknowledged this cost in our analysis above, think it is an acceptable cost considering the benefits of the information and we think disclosure of the expected cash flows would not result in significant additional costs than what was proposed. In fact, we expect the expected cash flows to be included in an entity's budgets and, therefore, reasonably accessible.

*Feedback and analysis about the time bands*

72. A few respondents suggest that the IASB requires an entity to apply its judgement determining the appropriate time bands for which to disclose the expected amount of electricity purchases under the contracts. They say their suggestion is consistent with

paragraph B11 of IFRS 7 for entities preparing the maturity analysis required by IFRS 7.

73. We agree with respondents that to be consistent with requirements already in IFRS 7, the IASB requires an entity to apply its judgement determining the appropriate time bands.

### *Staff recommendations*

74. We recommend that the IASB requires an entity to disclose the aggregated expected cash flows from buying electricity under the entity's NDE contracts for receipt over the remaining contract period and qualitative information about how an entity manages the risk that its NDE contracts for receipt might become onerous contracts. The entity applies its judgement determining the appropriate time bands within which to aggregate the future expected cash flows.

## The effect of NDE contracts for receipt on financial performance

### *Proposals*

75. If an entity is a purchaser under an NDE contract for receipt, the IASB proposed that the entity disclose information that enables investors to understand how these contracts affect the entity's financial performance for the reporting period. Specifically, an entity discloses for the reporting period:

    (a) the proportion of renewable electricity covered by the contracts to the total net volume of electricity purchased;

    (b) the total net volume of electricity purchased—irrespective of the source of production;

    (c) the average market price per unit of electricity in the markets in which the entity purchased electricity; and

(d) if (b) multiplied by (c) differs substantially from the actual total cost incurred by the entity to purchase the volume of electricity in (b), a qualitative explanation of the key reasons for this difference.

### *Feedback and analysis*

76. Many respondents disagreed with the proposed items of information. The main points of concerns raised by these respondents are:

(a) the proposals appear to be a convoluted way of reconstituting price-related information but, in their view, do not achieve the disclosure objective.

(b) gathering information about total electricity purchases and average market prices requires entities to gather information about transactions beyond just its NDE contracts for receipt. It would be a costly exercise, particularly for entities that operate in multiple jurisdictions. In their view the costs to prepare the information outweighs the benefits—particularly because the disclosure objective is focused on the effect of the NDE contracts for receipt.

(c) entities currently do not typically track total electricity purchases and total average market prices at a reporting entity level.

(d) determining average market prices are difficult and may not be a proper representation of the entity's price exposure (for example if entities are part of a group which operates globally). An entity makes use of different sources for procuring electricity. Each source might have different prices at different times during the day. Moreover, some market prices include other factors, for example, monthly demand charges for minimum consumption.

(e) if the IASB decides to proceed with requiring these items of information, additional guidance about how to calculate the average market price needs to be provided.

(f) the items of information, particularly the proportion of electricity covered by the contracts to the total net volume of electricity purchased, appear to be more relevant for sustainability disclosures.

(g) the qualitative disclosures about substantial differences would not result in useful information if market prices are volatile and this is typically the case—changes in the market price since inception of the contract will always lead to differences. NDE contracts for receipt are entered into on arms-length terms at a point in time. Market prices will always evolve and move over time, making the qualitative disclosures redundant.

77. Several CMAC and GPF members at the joint meeting in June 2024 said that information about the average market price for electricity during the period might not achieve the stated disclosure objective because of the lack of a global spot market where the price can be obtained. However, one CMAC member said the proposed disclosure could be useful for investors' analysis. Some CMAC and GPF members were also concerned that such a disclosure might appear to be questioning management's decisions to enter into particular contracts—which members thought was not the objective of that disclosure.

78. Some respondents—that agreed with the disclosure objective for an entity to disclose the effect of NDE contracts for receipt on an entity's financial performance—suggested alternative disclosures to those proposed. These are:

(a) information about the effect on financial performance of the sales of unused electricity. These respondents said it is these sales that create the accounting challenge with applying the own-use requirements that the IASB aims to address with this project. Therefore, the disclosures about the effect on an entity's financial performance need to focus on the effect of these sales. One respondent suggested this disclosure could be provided as the quantitative effect of the sales or the ratio of sales to the total amount of electricity purchased under the contracts.

(b) disclosure of actual expenses incurred under NDE contracts for receipt for the reporting period. Because of the close link between NDE contracts for receipts and similar contracts accounted for as leases under IFRS 16 *Leases*,[3] these respondents suggest similar disclosure as required by paragraph 53(e) of IFRS 16 (disclosure by the lessee of the expense relating to variable lease payments not included in the measurement of lease liabilities). One respondent said that this backward-looking information provides investors, over time, with a 'cash-flow run-off curve' that compliments the disclosure of expected cash flows disclosures we discuss in a previous section.

(c) disclosure of the net cost for the reporting period from being a net-purchaser of electricity. Because the own-use amendments require an entity to perform the net-purchaser backward-looking assessment, these respondents do not foresee their suggestion to result in significant additional costs. One respondent explained that this cost might be useful information because it represents the 'storage cost' or 'market-flexibility cost' an entity is willing to take to procure electricity using NDE contracts for receipt compared to other more classical ways, or a backward-looking 'measure' of the ineffectiveness of electricity purchases under NDE contracts for receipt.

79. We had a follow-up meeting with the respondent that suggested disclosure of the net cost (paragraph 78(c)). The respondent clarified that an entity could use, for example, a first-in-first-out method to allocate sales and subsequent purchases for the disclosures. They acknowledged that a practical challenge for entities preparing the disclosures might be to identify and allocate prices to the purchases that offset the sales for the disclosures. Another implementation challenge might be to appropriately aggregate purchases from other transactions under other contracts which may not be in scope of the proposed amendments.

80. Paragraph BC45(d) of the Basis for Conclusions on the Exposure Draft explains that investors told the IASB that they would find it useful to understand the effect of NDE contracts for receipt on the entity's financial performance during the reporting period. We think the feedback did not identify substantial reasons to disprove what investors

[3] See, for example, Example 9—*Contract for energy/power* of the Illustrative Examples that accompany IFRS 16 *Leases*.

told the IASB. Therefore, we continue to agree with the IASB's proposals to require—as a disclosure objective—disclosure of information that enables investors to understand the effect NDE contracts for receipt had on the entity's financial performance.

81. However, we acknowledge the concerns of respondents about the proposed items of information listed in paragraph 75. We agree with the respondents that said the proposed items of information was an attempt of reconstituting price-related information. Considering the feedback, we also agree that these proposed items of information might not adequately achieve the disclosure objective. We also acknowledge the concerns raised particularly for disclosing the average market price per unit of electricity in the markets in which the entity purchased electricity.

82. We also agree with respondents that said that to satisfy the disclosure objective the items of information need to focus on the particular effects NDE contracts for receipt have on financial performance. Considering the feedback and the unique risks arising from these contracts, we think the relevant effects on financial performance are:

   (a) purchases under NDE contracts for receipt;

   (b) sales of unused electricity; and

   (c) purchases of electricity to offset these sales (resulting in the entity being a net-purchaser over a reasonable period of time).

83. Considering the different suggestions for alternative items of information listed in paragraph 78, we think an approach to address the feedback could be for the IASB to require an entity to disclose qualitative or quantitative information about on how it determined that it remained a net-purchaser under the contract for the reporting period, particularly information about the effects listed in paragraph 82 but without specifying the items of qualitative or quantitative information the entity needs to provide.

84. We think the benefits of our approach are:

(a) it links the disclosures to the net-purchaser requirements included in the own-use amendments. We agree with respondents that said that because the own-use amendments require an entity to perform the net-purchaser backward-looking assessment, they do not foresee disclosures following on from this assessment to result in significant additional costs to entities.

(b) it requires information about the unique effects on financial performance that arise from NDE contracts for receipt.

(c) requiring an entity to apply its judgement to determine what qualitative and quantitative information to provide about these effects, ensures that the disclosures remain proportional to the importance of the NDE contracts for receipt in the context of an entity's business activities. We note that paragraph 17(c) of IAS 1 (and paragraph 20 of IFRS 18) still requires additional disclosures when compliance with the specific requirements in our Standards is insufficient to enable investors to understand the impact of NDE contracts for receipt on the entity's financial performance

(d) if the IASB were to require specified quantitative items of information, like paragraph 78(c), we think the IASB would need to consider adding additional requirements for how an entity needs to calculate the specified amounts and aggregate information to achieve comparability.

85. We acknowledge that a drawback of our approach is that it reduces comparability between entities and increases the costs to investors when comparing different entities. But we think such an approach is appropriate for this situation because of the variety of types of contracts, the variety of market designs and the differing levels of importance of these contracts for entities.

86. Developing our approach, we identified other instances in which the requirements of IFRS 7 requires entities to apply judgement to determine the items of information to

disclose.[4] Therefore, our approach would not be unique to other requirements in IFRS 7.

87. On balance, we also think that our approach adds useful information to the overall package of disclosures but in a practical way that balances the costs and benefits. As a package we think the proposed disclosures are proportional to a narrow-scope standard-setting project.

### *Staff recommendations*

88. We recommend that the IASB proceeds requiring an entity to disclose aggregate information to enable investors to understand the effect of its NDE contracts for receipt on the entity's financial performance for the reporting period. Our recommendation is subject to the IASB replacing the proposed items of information with a requirement for an entity to disclose qualitative and quantitative information about on how the entity determined that it remained a net-purchaser under the contract for the reporting period. The information is required to include information about the effects on the entity's financial performance of:

(a) purchases under NDE contracts for receipt;

(b) sales of unused electricity; and

(c) purchases of electricity to offset these sales.

## Subsidiaries without public accountability

### *Proposals*

89. The IASB proposed to not reduce the proposed disclosures an entity applying IFRS 19 (eligible subsidiaries). Paragraph BC50 of the Basis for Conclusions on the Exposure Draft explained that the IASB decided this because:

[4] See, for example, paragraphs 22C, 24I, 24J, B20 and B25 of IFRS 7.

(a) the proposed disclosure requirements would provide information about obligations, commitments or contingencies and information on measurement uncertainties.

(b) the IASB expects that the benefits of the proposed disclosure requirements would outweigh the costs.

### *Feedback and analysis*

90. Many respondents agreed to not reduce the disclosures for eligible subsidiaries if the IASB reconsidered the proposed disclosures for other entities based on their other comments. Some respondents agreed unconditionally not to reduce the disclosures. A few respondents disagreed because of the costs needed to prepare the information. A few others suggested the IASB only requires an eligible subsidiary to provide the disclosures if its NDE contracts are significant to the entity's operations or if material.

91. We continue to agree with the IASB's rationale for deciding not to reduce the disclosures for eligible subsidiaries as set out in the Exposure Draft. Furthermore, if the IASB agrees with our recommendations for the proposed disclosures for other entities, it will also reduce the burden on eligible subsidiaries for providing the information and thereby address most of the concerns raised by respondents. This is because the costs of implementation appear to be the main criticism for not reducing the disclosures. We think our recommendations reduces the implementation costs for all entities, including eligible subsidiaries.

### *Staff recommendations*

92. We recommend that the IASB proceeds with not reducing disclosures for eligible subsidiaries.

## Other clarifications

### *Feedback*

93. A few respondents noted that the IASB needs to amend paragraph 5 of IFRS 7 if it were to include the proposed disclosures in IFRS 7. Paragraph 5 states that IFRS 7 applies only to contracts to buy or sell a non-financial item that are within the scope of IFRS 9. This paragraph would then exclude NDE contracts for receipt accounted for as executory contracts.

### *Analysis and staff recommendation*

94. We agree with these respondents that the IASB needs to amend paragraph 5 of IFRS 7. We recommend the IASB amends this paragraph to ensure NDE contracts for receipt accounted for as executory contracts are subject to the proposed disclosures to be included in IFRS 7.