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(By online submission)

Dear Andreas

RESPONSE TO EXPOSURE DRAFT ON CONTRACTS FOR RENEWABLE ELECTRICITY

The Singapore Accounting Standards Committee (ASC), under the Accounting and Corporate Regulatory Authority (ACRA), welcomes the opportunity to comment on the Exposure Draft on *Contracts for Renewable Electricity (Proposed amendments to IFRS 9 and IFRS 7)* (the ED) issued by the International Accounting Standards Board (the IASB) in May 2024.

We appreciate the IASB's efforts to swiftly address the application challenges faced by entities when accounting for power purchase agreements (PPAs) in accordance with the existing requirements of IFRS 9 *Financial Instruments*. Through our stakeholder outreach, we noted that in the Singapore electricity market, the contribution of renewable electricity to total energy consumption has potential for further growth and existing PPAs generally do not have the 'pay-as-produced' features mentioned in the ED. Nevertheless, as Singapore and the rest of the world inevitably transition to more use of renewable energy, utilisation of contracts for renewable electricity with the characteristics specified in proposed paragraph 6.10.1 of IFRS 9 is expected to become increasingly commonplace. We therefore believe that the proposed amendments are a welcomed relief for entities with such contracts, or are considering such contracts for future use, as well as for users of financial statements (users) who

will benefit from these contracts being more faithfully represented in the financial statements as a result of the proposed amendments.

We are generally supportive of the proposals set out in the ED but have specific comments on certain aspects. Our comments are as described below.

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

While we are more persuaded by the alternative view of two of the IASB members that the proposed amendments appear to deviate from principle-based accounting and be more lenient towards contracts for renewable electricity, we are cognisant of the urgency in addressing the application challenges faced by the jurisdictions already using such contracts. Hence, on the basis of an urgent solution being imperative, we generally agree with limiting the scope of the proposed amendments to contracts for renewable electricity with the specified characteristics. That said, we caution that the use of the proposed tailored but less principle-based solution may result in future application challenges when contracts and/or technology evolve. We suggest that the IASB could look into developing more principle-based accounting requirements for renewable energy, including electricity, in the IASB’s potential project on pollutant pricing mechanisms (PPM). We also concur with the IASB’s decision to address renewable energy certificates as part of the potential project on PPM instead of this ED to avoid delaying the proposed amendments in this ED.

Additionally, we have the following concerns and suggestions for refining the proposed scope:

Nature-dependent source of production of renewable electricity

We note from paragraph BC9 of the Basis for Conclusions (BC) on the ED that the IASB intended for the scope of the proposed amendments to exclude other contracts for electricity, such as contracts for biomass energy and some contracts for hydroelectricity. The rationale for their exclusion, as outlined in the IASB staff paper in March 2024, is as follows:

- (a) Biomass energy: While the source of production is nature-dependent, it is not the case that the supply cannot be guaranteed at specified times or for specified volumes. For example, the sun’s effect on biomass differs from its effect on the energy generation in a solar farm.
- (b) Hydroelectricity: In some contracts for hydroelectricity, volume risk is not transferred to the purchaser as the producer can control supply through, for example, opening or closing the dams.

While we agree with the IASB’s intention and rationale, these cannot be inferred from the current wordings of the specified characteristics in proposed paragraph 6.10.1 of IFRS 9. We suggest that the IASB either refines the wordings or expands paragraph 6.10.1 by stating that contracts for biomass energy and some contracts for hydroelectricity are examples of contracts not in the scope and providing the rationale for their exclusion within paragraph 6.10.1 or in the BC on IFRS 9.

Volume risk

Proposed paragraph 6.10.1(b) requires a contract for renewable electricity to expose ‘the purchaser to substantially all the volume risk under the contract’ and defines volume risk as ‘the risk that the volume of electricity produced does not align with the purchaser’s demand for electricity at the time of production’. This may result in application challenges when:

- (a) The contracted volume is for a portion of the electricity produced by the referenced production facility, for example, 20% of the output from a wind farm. An entity applying the proposed definition of volume risk to the example may interpret it as requiring consideration of 100% of the volume of electricity produced despite only being exposed to the volume risk pertaining to 20% of the output. We recommend the IASB considers refining the definition of volume risk if the intention is to limit the assessment to the volume contracted.
- (b) There is a minimum volume of electricity guaranteed by the producer to the purchaser. In such cases, assessment of whether the purchaser is exposed to substantially all the volume risk under the contract may require significant judgement. We recommend the IASB clarifies whether ‘substantially all the volume risk’ entails the purchaser bearing the risk for *all* of the electricity produced and delivered (i.e., no minimum guarantee allowed) or if the purchaser bears the risk for *most* of the electricity produced and delivered.

Question 2— Proposed ‘own-use’ requirements
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<p>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.</p>

Do you agree with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

We agree with the IASB that if an entity enters into a contract for renewable electricity with the specified characteristics solely for the purpose of its own use and sales of unused electricity occur purely due to the design or operation of the electricity market, the contract should be accounted for in the same way as other procurement contracts as long as the entity remains a net-purchaser of the renewable electricity over time.

Accordingly, we are broadly supportive of the proposed amendments which would ensure that the underlying principle behind the existing own-use requirements is maintained while reducing the risk of entities structuring transactions or contracts. However, we have concerns with proposed paragraph 6.10.3(b)(iii) which requires the entity to expect 'to purchase at least at equivalent volume of electricity within a reasonable time (for example, one month) after the sale'.

Matching of purchases to sales

Due to the nature-dependency of the source of production of renewable electricity and the constantly improving efficiency of green energy from technological advances, there may be instances where a purchaser remains a marginal net-seller despite its best efforts at matching expected demand and supply during contract inception. Strictly applying the 'bright-line' test in proposed paragraph 6.10.3(b)(iii) will disqualify the purchaser from applying the own-use requirements to account for the contract as an executory contract, and may inappropriately incentivise entities to contract for less quantities of renewable energy, thereby reducing the progress towards being carbon neutral.

In addition, the current wordings in proposed paragraph 6.10.3(b)(iii) appears to provide an avenue for an entity to utilise a roll-forward mechanism to justify that the criterion has been met at specific intervals of the contract duration when, in reality, the entity does not remain a net-purchaser over a reasonable amount of time. For example, an entity may claim that sales of unused renewable electricity in the first period have been matched against gross purchases in the second period despite there being overall net sales in the second period as well. The remaining unmatched sales from the second period are then brought forward and matched against gross purchases in the third period.

Determination of reasonable time

The volume of renewable electricity produced from certain nature-dependent sources (for example, solar, wind) may fluctuate significantly over a prolonged period, especially if the production is heavily influenced by seasonality. This may result in a

situation where an entity is a net-seller for a prolonged duration but a net-purchaser at the end of a longer interval of time. We note that while paragraph BC20(c) of the BC on the ED states that ‘reasonable’ depends on an entity’s operations, the IASB also included the example of one month to demonstrate that a reasonable time is typically a short time. Consequently, entities in such situations may infer that requiring a longer interval of time to arrive at a net-purchaser position disqualifies them from applying the own-use requirements to account for contracts for renewable electricity as executory contracts.

To address the concerns pertaining to matching of purchases to sales and determination of reasonable time, we suggest that the IASB considers amending the wording in paragraph 6.10.3(b)(iii) by including wordings from the BC, specifically the terms ‘remains a net-purchaser over a reasonable amount of time’ and ‘reasonable depends on an entity’s operations’, in the main standard for clarity and removing the reference of a bright-line threshold of ‘one month’.

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

We agree with the proposed hedge accounting requirements which would alleviate the issues encountered by entities with existing contracts for renewable electricity in a timely manner and ease the apprehension of entities considering such contracts for the near future. Nonetheless, we reiterate that the proposed tailored but less principle-based solution may result in future application challenges when contracts and/or technology evolve. We suggest the IASB considers looking at a comprehensive solution for all cash flow hedging relationships involving contracts with similar economics in a relevant future project.

<p>Question 4— Proposed disclosure requirements</p>
<p>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:</p>
<p>(a) The entity’s financial performance; and</p>

(b) The amount, timing and uncertainty of the entity's future cash flows.

Do you agree that with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

We generally agree with the proposed disclosure requirements since contracts for renewable electricity will not be subject to existing requirements in IFRS 7 *Financial Instruments: Presentation* upon being accounted for as normal purchases as opposed to derivatives. The proposed disclosure requirements will help ensure that users continue to be provided with information allowing them to understand the effect that these contracts have on an entity's financial performance in the reporting period and the amount, timing and uncertainty of the entity's future cash flows. However, we have the concerns and suggestions described below.

Commercial sensitivity

We note that the IASB intended the proposed disclosure requirements to be drafted such that:

- (a) Entities do not have to disclose commercially sensitive information such as the price agreed in the contract.
- (b) Information to be disclosed are readily available to the entity (for example, contract terms, average market prices, actual and expected volume of electricity).

The proposed paragraph 42W also provides an avenue for an entity to exercise judgement to consider how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users need additional explanations to evaluate the quantitative information the entity has disclosed. An entity also need not duplicate information that is already disclosed in accordance with other IFRS Accounting Standards.

Nonetheless, our stakeholders informed us that some of the disclosures required, in particular, cancellation clauses and the total net volume of electricity purchased (irrespective of the source of production), are commercially sensitive, especially for producers and retailers of electricity. In addition, purchasers of renewable electricity generally may not procure electricity from more than one source nor enter into multiple electricity contracts within a year. Consequently, aggregation may not be possible in a single reporting period and information disclosed under the proposed requirements may relate to a single contract for renewable electricity.

Legal/regulatory restrictions

Terms and conditions of the contracts for renewable electricity may also be subject to confidentiality clauses and regulatory restrictions, particularly when contractual counterparties are state-owned. Despite the proposed amendment for an entity to aggregate the information to be disclosed, the relevant entity(ies) may still be unable to avoid disclosing legally privileged information that can be traced to a particular contract or type of contracts that may be jurisdictional-specific. For example, when an entity purchases renewable electricity from state-owned producers of different jurisdictions and has to disclose each contract separately due to the varying contract terms and conditions that are unique to each jurisdiction. Similarly, when an entity produces and sells renewable electricity to state-own purchasers, particularly national grids of different jurisdictions, the same challenges and constraints may apply.

To address the above concerns on commercial sensitivity and legal/regulatory restrictions, we suggest that the IASB considers:

- (a) Clarifying, for the disclosure of cancellation clauses, if the intent was to disclose their existence only (i.e., state whether there are cancellation clauses or not) or the details of the clauses; and
- (b) Addressing instances where aggregation:
 - (i) Is not possible in a single contract scenario.
 - (ii) Results in disclosure of information that can be traced to a specific contract or type of contracts that may be jurisdictional-specific.

Scope of IFRS 7

Paragraph 5 of IFRS 7 currently states that ‘this IFRS applies to contracts to buy or sell a non-financial item that are within the scope of IFRS 9’, and we note from paragraph BC40 of the BC on the ED that contracts accounted for as a normal purchase would not be subject to the existing disclosure requirements of IFRS 7. Since the proposed amendments to IFRS 7 will be applicable to all contracts for renewable electricity with the specific characteristics, including those that will be accounted for as normal purchases pursuant to the own-use exception in IFRS 9, we suggest the IASB updates paragraph 5 of IFRS 7 to reflect this.

Question 5—Proposed disclosure requirements for subsidiaries without public accountability
Paragraphs 67A–67C of the proposed amendments to the forthcoming IFRS 19 <i>Subsidiaries without Public Accountability: Disclosures</i> would require an eligible subsidiary to disclose information about its contracts for renewable electricity with specified characteristics.

Do you agree with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

Subject to our comments in Question 4, we generally agree with the IASB's proposal to require entities applying IFRS 19 to disclose the same information for its contracts for renewable electricity as those entities applying the proposed amendments to IFRS 7 because information on these contracts which are accounted for differently due to their unique characteristics would be highly relevant to users. Such information is likely to be prepared for the purpose of group reporting as well.

Additionally, we suggest that the IASB considers adding to IFRS 19 amendments similar to proposed paragraph 42W in IFRS 7.

Question 6— Transition requirements

The IASB proposes to require an entity to apply:

- (a) The amendments to the own-use requirements in IFRS 9 using a modified retrospective approach; and
- (b) The amendments to the hedge accounting requirements prospectively.

Early application of the proposed amendments would be permitted from the date the amendments were issued.

Do you agree with these proposals? Why or why not?

If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

We agree with the proposed transition requirements on the basis of the IASB's rationale.

Question 7—Effective date

Subject to feedback on the proposals in this Exposure Draft, the IASB aims to issue the amendments in the fourth quarter of 2024. The IASB has not proposed an effective date before obtaining input about the time necessary to apply the amendments.

In your view, would an effective date of annual reporting periods beginning on or after 1 January 2025 be appropriate and provide enough time to prepare to apply the proposed amendments? Why or why not?

If you disagree, what effective date would you suggest instead and why?

We are of the view that an effective date of annual reporting periods beginning on or after 1 January 2025 would not provide affected entities with sufficient time to digest the requirements and, where necessary, develop processes to comply with the proposed amendments. We suggest an effective date of annual reporting periods beginning on or after 1 January 2026 and allowing for early adoption by entities which are ready to do so.

We hope that our comments will contribute to the IASB's deliberation on the ED. Should you require any further clarification, please contact our project manager Eddie Lim at eddie_lim@acra.gov.sg.

Yours sincerely

Wee Khim Tan (Ms)
Technical Director
For and on behalf of Accounting Standards Committee
Accounting and Corporate Regulatory Authority