Joint Outreach Event on the IASB project *Contracts for renewable electricity* (ED/2024/3) ASCG, IASB, AFRAC, EFRAG – 4 July 2024 – Report

I. Welcome/Introduction

Prof Morich (DRSC) welcomed the approximately 40 participants and thanked on behalf of all participating organisations for their interest. This was followed by an introduction of the representatives of the IASB, AFRAC and EFRAG. Mr Morich explained the course of the event.

II. Presentation of the project

The IASB staff began with general comments on the focus of the project and the timeframe. It was made clear that a deliberately narrow scope was chosen in favour of a rapid development of the proposals. Comments during the consultation should consider, and take into account, this narrow focus. Feedback is particularly welcome as to whether the proposed wording and terms are appropriate, sufficiently clear and applicable.

III. Discussion of the proposals/questions in the ED/2024/3

<u>1. Scope / Contractual features</u>

Initially, the contractual features were presented, and it was pointed out that these are an essential boundary. In addition, these relate directly to the source of electricity and the production volume (i.e. an absolute volume risk) and not to the question of excess/shortfall quantities (i.e. a relative volume risk) - the latter is relevant for #2 (own use exemption).

The "pay as produced" criterion was discussed in depth. It was assumed to be too narrow. The IASB staff explained that this generally covers the sale of an uncertain quantity and that other features (e.g. "pay as nominated", "pay as forecasted") should also be covered.

It was noted that the criterion "transfer of the volume risk to the purchaser" is a suboptimal limitation; rather, the timing risk is key. In addition, non-storability is a crucial point, but this is not formulated as a feature.

It was also pointed out that contracts without price risk are not relevant here; this should be more clearly.

Finally, it was mentioned that cap clauses or "base load contracts" are also widespread and relevant. It seems unclear whether these are covered by the proposals, as in these cases the volume risk was transferred only partially. The IASB staff stated that such contracts would also be considered and covered by the proposals.

2. Own use exemption

It was initially clarified that the proposals in para. 6.10.3 do not provide an exception to IFRS 9.2.4, but are intended to confirm and clarify the existing requirement.

Out of the proposed criteria, (b)(iii) was considered crucially.

Firstly, the “repurchase” criterion does not appear appropriate because repurchases may not (or not in the same quantity) come along with earlier partial sales, or because partial sales and repurchases are not always causally determined. In addition, the sale of excesses and a repurchase may also take place in reverse. Furthermore, sometimes partial sales and repurchase cannot be allocated to the same contract, but rather to an energy (contract) portfolio. Finally, it was noted that partial sales and repurchases can also take place in different group entities. It was confirmed that this would still be in line as far as both entities are part of the same reporting unit ("the entity").

Secondly, the example of an appropriate repurchase period (1 month) is not suitable in practice, as production cycles and seasonal demand patterns cover significantly longer periods. It was recognised that a different wording for expressing a "reasonable period" should be found.

Further, it was mentioned that the proposals appear to only cover contracts that fall short of the company's own requirements (net buyers). In practice, however, there are also oversized contracts for which the proposals do not appear adequate and are presumably not applicable. The IASB staff responded that such contracts are deliberately not in focus because such contracts generate fundamental deviations – which do not arise solely due to the volume risk. Specifically, with such contracts it would be difficult to determine in which partial period the quantity delivered is expected to match with the quantity required for own use. It was criticised in this regard that surpluses from one contract are compensated for by other contracts; when viewed as a whole, such contracts should therefore still be the focus of the proposals.

Finally, it was mentioned as questionable how criterion (b)(iii) relates to (i) and (ii).

3. Hedge Accounting

It was emphasised that the proposals as regards hedge accounting focus on vPPAs, whereas the OuE clarifications relate exclusively to pPPAs.

It was expressed that the proposals represent a good solution for producers/suppliers rather than for buyers; the reason for this is the highly probable requirement. It was encountered that the proposals are generally a relief for both contracting parties. For buyers, vPPAs are now eligible for designation as a hedging instrument, including a variable quantity. Nevertheless, the existing conditions of probability of occurrence and measurability of expected effectiveness remain valid. It is therefore undisputed that the designated hedging instrument (in particular the designated volume) must reach the probability threshold.

It was also questioned whether the proposals are also applicable in the case of portfolio/macro hedging. The IASB staff confirmed that this is potentially possible in the case of cash flow hedge accounting in general as well as in this special case.

4./5. Disclosures (IFRS 7/IFRS 19)

While introducing the proposed additional disclosures, it was emphasised that these are almost identical under both standards.

These proposals were considered acceptable, but in some cases too extensive. In particular, it was criticised that more information is now required for CoRE than for other comparable contracts. Specifically, it was suggested that the disclosure requirements should be softened so that they are only required for CoRE for which the OuE is applicable, but not for those that are recognised at FV.

Furthermore, it appears unclear whether the volume disclosure in accordance with para. 42U (proportion of CoRE) refers to energy units or value/monetary units; a disclosure of monetary units would be preferred.

As regards the IFRS 19 disclosures, it was noted that assessment is still difficult as IFRS 19 has not yet been applied and therefore no practical experience is available yet.

6. Transition / 7. Effective Date

It was confirmed that timely first-time application is desirable. In response to the IASB suggestion (first-time application from 1 January 2025), it was suggested that mandatory first-time application from 1 January 2026 would be more appropriate, accompanied by an option for voluntary early application.

IV. Final remarks

Finally, the endorsement procedure was addressed. This is the biggest and ultimate hurdle in the EU. Prof Morich explained that final endorsement is not possible before mid-2025, despite the recognised need for urgency.

Prof Morich gave thanks to all participants for their active role in the discussion, and to the other organisations for contributing to the event.