



2 August 2024

Dr. Andreas Barckow
Chair
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
United Kingdom

Comments on the Exposure Draft (ED/2024/3)
Contracts for Renewable Electricity
(Proposed amendments to IFRS 9 and IFRS 7)

1. The Accounting Standards Board of Japan (“we”) welcome the opportunity to provide our comments on the International Accounting Standards Board (“the IASB”)’s Exposure Draft (ED/2024/3) *Contracts for Renewable Electricity (Proposed amendments to IFRS 9 and IFRS 7)* (“the ED”), issued in May 2024.
2. We support the IASB undertaking a project related to renewable electricity contracts to satisfy the increasing needs to address accounting issues surrounding those contracts. However, we have concerns about the approach the IASB proposes to take to address the issues.

(Accounting for Renewable Energy Certificates (“RECs”))

3. Our understanding is that most contracts related to renewable electricity are accompanied by the exchange of renewable energy certificates (“RECs”) (or certificates, schemes or accreditations with similar attributes) and that, in many cases (in particular for the purchaser), the exchange of RECs is the main purpose of entering into such contracts. However, the IASB decided not to include the accounting for RECs within the scope of this project because the IASB thought that it would avoid unnecessary delay of the project and that accounting issues surrounding RECs would be addressed in the potential project on pollutant pricing mechanisms.

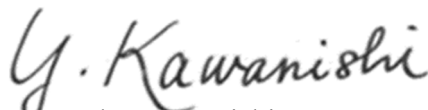
4. The IASB's decision not to include the accounting for RECs within the scope of this project takes for granted that:
 - (a) contracts related to renewable electricity which are accompanied by the exchange of RECs contain two components, which represent (i) a contract to exchange electricity and (ii) a contract to exchange RECs;
 - (b) the two components in (a) should be accounted for separately; and
 - (c) the accounting for the component which represents a contract to exchange electricity can be determined without considering the accounting for the other component.
5. However, we note that many entities (purchasers) enter into virtual Power Purchase Agreements (virtual PPAs) with the objective of purchasing RECs, rather than reducing the variability arising from the changes in the market price of electricity. From that viewpoint, we think virtual PPAs may be viewed as a single component transaction whereby RECs are exchanged for variable consideration that represents the amount the entity needs to pay to obtain the RECs.
6. Our understanding is that virtual PPAs may be considered to meet the definition of a derivative in accordance with the existing IFRS 9; however, we note that the IASB had not envisioned transactions such as PPAs when it developed the existing requirements in IFRS 9. We think that, if virtual PPAs are viewed as normal purchases of RECs with variable consideration, the economic substance of virtual PPAs would be more faithfully represented by accounted for such virtual PPAs as executory contracts rather than as derivatives.
7. We also note that, if virtual PPAs were to be accounted for as executory contracts, it is more likely that the accounting for virtual PPAs would be aligned with the accounting for physical PPAs.
8. In addition, if the two components are to be accounted for separately, the total consideration must be allocated between the two, and how such allocation is made would depend on how each component is accounted for. We think it is not obvious how the consideration would be allocated to the component which represents a contract to exchange electricity, because it will depend on how RECs would be accounted for.

9. Based on the discussions above, we do not support the IASB excluding RECs from the scope of the project. Having said that, we understand the urgent needs in certain jurisdictions and do not object to addressing those needs but suggest that the IASB clarify that this project would provide interim measures. We think the IASB should reconsider the accounting for contracts for renewable electricity, including the accounting for RECs, as a medium- to long-term project, and note within the forthcoming amendment, based on the outcome of the medium- to long-term project, the interim measures may be revisited.

(Disclosure requirements proposed in the ED)

10. We have strong reservations regarding the disclosure requirements proposed in the ED, specifically, the proposed disclosure requirements in paragraphs 42U and 42V of IFRS 7 *Financial Instruments: Disclosures* related to the proportion of renewable electricity covered by the contracts to the total electricity sold or purchased and the effect contracts for renewable electricity had on the entity's cost for the electricity it consumed, because such information does not meet the disclosure objectives as described in paragraph 20-22 of the Appendix of this letter. We think such information is more likely to be viewed as sustainability-related information and does not belong to the financial statements, including the notes.
11. For our comments on the specific questions in the ED under the assumption that the IASB clarifies that the amendments to the standard that do not address the accounting for RECs are proposed as interim measures, please see the Appendix of this letter.
12. We hope our comments are helpful for the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,



Yasunobu Kawanishi

Chair

Accounting Standards Board of Japan

Comments on Specific Questions in the ED

Our comments on the specific questions sought in the ED are as follows.

Question 1— —Scope of the proposed amendments

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.

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?

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

(Scope of the proposed amendments)

1. We agree with the scope of the proposed amendments which limits the scope to contracts for renewable electricity with specified characteristics. The issues the IASB intends to address relate only to certain PPAs, and we think the IASB can avoid unintended consequences by explicitly limiting the scope of the amendments.
2. Further, we agree with the IASB’s approach to develop the definition of contracts for renewable electricity within the scope of the amendments by focusing on the characteristics that the supply of renewable electricity cannot be guaranteed at specified times or for specified volumes and that the purchaser incurs substantially all the risk arising from the variability of the volume of the renewable electricity produced.

(The terms “pay-as-produced” features and “volume risk” in proposed paragraph 6.10.1(b) of the ED)

3. Paragraph 6.10.1(b) of the ED uses the terms “volume risk” and “pay-as-produced” which are commonly used outside IFRS Accounting Standards. The ED uses these terms with specific meanings for the purpose of defining the contracts for renewable electricity within the scope of the amendments.

4. We are concerned that these terms may be used in different meanings either in an entity's financial statements or in future IFRS Accounting Standards. If this is the case, we think these terms could lead to misunderstandings or inconsistencies in practice. Accordingly, we recommend the IASB define the scope by specifically describing the contracts within the scope of the ED, for example, as "under the contract, the purchaser is obliged to receive all or a proportion of the total electricity produced and to pay the consideration for the electricity received, regardless of the purchaser's demand for electricity at the time of production".

(Accounting for Renewable Energy Certificates ("RECs"))

5. Our understanding is that most contracts related to renewable electricity are accompanied by the exchange of RECs (or certificates, schemes or accreditations with similar attributes) and that, in many cases (in particular for the purchaser), the exchange of RECs is the main purpose of entering into such contracts. However, the IASB decided not to include the accounting for RECs within the scope of this project because the IASB thought that it would avoid unnecessary delay of the project and that accounting issues surrounding RECs would be addressed in the potential project on pollutant pricing mechanisms.
6. The IASB's decision not to include the accounting for RECs within the scope of this project takes for granted that:
 - (a) contracts related to renewable electricity which are accompanied by the exchange of RECs contain two components, which represent (i) a contract to exchange electricity and (ii) a contract to exchange RECs;
 - (b) the two components in (a) should be accounted for separately; and
 - (c) the accounting for the component which represents a contract to exchange electricity can be determined without considering the accounting for the other component.
7. However, we note that many entities (purchasers) enter into virtual Power Purchase Agreements (virtual PPAs) with the objective of purchasing RECs and, rather than reducing the variability arising from the changes in the market price of electricity. From that viewpoint, we think virtual PPAs may be viewed as a single component transaction whereby RECs are exchanged for variable consideration that represents the amount the entity needs to pay to obtain the RECs.

8. Our understanding is that virtual PPAs may be considered to meet the definition of a derivative in accordance with the existing IFRS 9; however, we note that the IASB had not envisioned transactions such as PPAs when it developed the existing requirements in IFRS 9. We think that, if virtual PPAs are viewed as normal purchases of RECs with variable consideration, the economic substance of virtual PPAs would be more faithfully represented by accounted for such virtual PPAs as executory contracts rather than as derivatives.
9. We also note that, if virtual PPAs were to be accounted for as executory contracts, it is more likely that the accounting for virtual PPAs would be aligned with the accounting for physical PPAs.
10. In addition, if the two components are to be accounted for separately, the total consideration must be allocated between the two, and how such allocation is made would depend on how each component is accounted for. We think it is not obvious how the consideration would be allocated to the component which represents a contract to exchange electricity, because it will depend on how RECs would be accounted for.
11. Based on the discussions above, we do not support the IASB excluding RECs from the scope of the project. Having said that, we understand the urgent needs in certain jurisdictions and do not object to addressing those needs but suggest that the IASB clarify that this project would provide interim measures. We think the IASB should reconsider the accounting for contracts for renewable electricity, including the accounting for RECs, as a medium- to long-term project, and note within the forthcoming amendment, based on the outcome of the medium- to long-term project, the interim measures may be revisited.

(Location of the proposed amendments)

12. The ED indicates that the IASB will consider further the location of the proposed amendments in drafting the final amendments to IFRS 9 *Financial Instruments*.
13. Our understanding is that proposed amendments set out the exceptions to the general requirements in IFRS 9 are applicable only to specific contracts related to renewable electricity. Accordingly, we think the IASB should place all of the amendments in one place to clarify that the amendments are introduced as exceptions to the general requirements in IFRS 9. We also think that developing a separate authoritative document that addresses the requirements applicable to the accounting for and

disclosure of contracts for renewable electricity and then excluding contracts for renewable electricity from the scope of IFRS 9 may be a better solution regarding the location of the proposed amendment, given that the requirements are narrowly scoped.

(Application of the proposed amendments to IAS 39 *Financial Instruments: Recognition and Measurement*)

14. The ED limits the scope of the proposed amendments only to contracts to which the requirements of IFRS 9 apply. However, we recommend the IASB amend requirements in IAS 39 similarly with the proposed amendments in IFRS 9, because the accounting issues surrounding contracts for renewable electricity would not be addressed for entities applying IAS 39.

Question 2—Proposed ‘own-use’ requirements

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.

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?

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

15. We generally are not in favour of the IASB’s proposals that would introduce an exception to the own-use requirements in IFRS 9, which is an exception to the general requirements which require contracts related to non-financial items to be accounted for as derivatives. However, considering that the scope of the proposed amendments is proposed to be explicitly limited, and that we consider the proposed amendments to be interim measures, as described in paragraph 11 of this Appendix, we do not oppose the IASB in proceeding with the proposed amendments related to the own-use requirements.

(Factors to consider for the purpose of applying the own-use requirements)

16. Our understanding is that the objective of the proposed amendments to the own-use requirements is to allow an entity to apply the own-use requirements when contracts for renewable electricity are held for the purpose that is consistent with other types of contracts that the own-use requirements in paragraph 2.4 of IFRS 9 would be applied, except that the sale of excess electricity may occur due to mismatches between the electricity delivered and the entity's electricity demand at the time of delivery.
17. Based on our understanding stated in the preceding paragraph, we have the following comments on the proposed requirements in paragraph 6.10.3 of IFRS 9:
- (a) We agree that the IASB requires entities to consider the factors proposed in paragraph 6.10.3(a) and (b) of IFRS 9 in the ED at inception of the contract as well as at each subsequent reporting date, because we think contracts for renewable electricity generally are long-term in nature and the expected volumes of electricity produced and used over the contract periods are likely to vary.
 - (b) We agree with the factors proposed in (a), (b)(i) and (b)(ii) of paragraph 6.10.3 of IFRS 9 in the ED, because we think these factors would appropriately identify the contracts for renewable electricity which are held for the purpose that is consistent with other types of contracts that the own-use requirements in paragraph 2.4 of IFRS 9.
 - (c) We disagree with the IASB's proposal to include the factor in paragraph 6.10.3 (b)(iii) of IFRS 9 in the ED for the following reasons:
 - (i) Our understanding is that the case where entities account for contracts for renewable electricity using the own-use exception would be more limited by the factor in paragraph 6.10.3(b)(iii) of IFRS 9. This is because paragraph 6.10.3(a) of IFRS 9 requires entities to consider the entities' expected delivery of electricity over the remaining duration of the contract regardless of whether such entities have sold renewable electricity in the past, whereas paragraph 6.10.3(b)(iii) of IFRS 9 would require entities to consider the entities' additional purchases of electricity that is commensurate with the volume of past sales only when entities have sold renewable electricity in the past.
 - (ii) Our understanding is that the mismatches between the electricity delivered

and the entity's electricity demand at the time of delivery and elimination of such mismatches arise from various reasons, considering that the volume of electricity produced is nature-dependent and that the volume and timing of purchaser's demand for electricity may also be variable. Accordingly, we think there would be situations where entities do not expect any additional purchases that are commensurate with the volume of past sales, for example: when the expected volume of supply would continuously exceed the level of the expected volume of demand; or when sales of the electricity occur after the purchase of electricity related to excess demand.

- (iii) Based on our understanding stated above, we are concerned that the proposed factor in paragraph 6.10.3(b)(iii) of IFRS 9 would unnecessarily limit cases where the own-use exception can be applied in accordance with the proposed amendments in the ED.

Question 3—Proposed hedge accounting requirements

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.

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?

18. We agree with the direction of the proposals in the ED, because we think that the proposed amendments to the hedge accounting requirements would avoid an overly restrictive application of hedge accounting for a highly effective economic hedge due to variability in the nominal volume of hedged items. We think that the amendments will result in representing the effect of an entity's risk management activities related to the contracts for renewable electricity within the scope of the ED in the financial statements.

Question 4—Proposed disclosure requirements

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:

- (a) the entity’s financial performance; and
- (b) the amount, timing and uncertainty of the entity’s future cash flows.

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?

19. We do not think that the disclosure objectives proposed in the ED are specific enough for entities that have contracts for renewable electricity within the scope of the ED to understand the type of information that should be provided to the users of the financial statements.
20. We think that the characteristics of the amount, timing and uncertainty of future cash flows to which the seller and the purchaser is exposed in relation to contracts for renewable electricity within the scope of the amendments in the ED are, in many cases, similar to those of other types of contracts which are outside the scope of the ED. Such other types of contracts may include derivative contracts that are subject to the own-use requirements under paragraph 2.4 of IFRS 9 or derivative contracts that are not subject to the own-use requirements under paragraph 2.4 of IFRS 9 but qualify for hedge accounting.
21. We note that the existing disclosure requirements in IFRS 7 or IFRS 13 that are applicable to such other types of contracts would also be applicable to the contracts for renewable electricity within the scope of the ED. This means that most information that is considered necessary for renewable electricity contracts is likely to be provided in accordance with the existing disclosure requirements.
22. Accordingly, we are of the view that the IASB should develop specific disclosure objectives by focusing on the information about the amount, timing and uncertainty of future cash flows that users typically need to understand the contracts related to renewable electricity. More specifically, we are of the view that additional disclosure requirements would only be needed for physical PPAs that are eligible for the own-use requirements by applying the proposed amendments in the ED and

therefore accounted for as executory contracts. This is because, for such physical PPAs:

- (a) the purchaser may realize its cash flows from the fair value of the contract related to renewable electricity by selling the electricity delivered in the market; and
- (b) contracts would not be accounted for as derivatives and, therefore, related disclosures would not be provided.

23. At the same time, we are concerned that the proposed disclosure requirements in paragraph 42T (b) of IFRS 7 which would require the disclosure about the fair value of the entire contract may lead to providing information that does not represent the economic substance of the contract. This is because the electricity sold in the market by the purchaser is only a portion of the electricity delivered under the contract and a reasonable estimate of the portion within the total volume purchased is generally considered to be difficult.
24. Rather, we are of the view that, for physical PPAs that would be eligible for the own-use requirements by applying the proposed amendments in the ED, it may be more useful for users of financial statements if the entity discloses, for example, information about the volume sold during the reporting period, the percentage of volume sold out of the total volume purchased, the reasons for the sale, and the entity's judgement regarding whether the contract continues to be in line with the entity's expected purchase or use requirements, together with information about the key contractual terms and conditions.
25. In addition, we have strong reservations regarding the proposed disclosure requirements in paragraphs 42U and 42V of IFRS 7 related to the proportion of renewable electricity covered by the contracts to the total electricity sold or purchased and the effect contracts for renewable electricity had on the entity's cost for the electricity it consumed, because, given our considerations regarding the disclosure objectives described in paragraphs from 20 to 22 of this Appendix, we think the proposed disclosures do not meet the disclosure objectives. We think such information is more likely to be viewed as sustainability-related information and does not belong to the financial statements, including the notes.

(The level of aggregation of disclosures)

26. We note that multinational companies may have contracts related to renewable electricity with various contractual terms in various jurisdictions. For example,

multinational companies may enter into physical PPAs in some jurisdictions and virtual PPAs in others, and the contractual terms may also vary for the various types of renewable electricity.

27. Although the ED states that an entity need not disclose information for each contract separately, it does not provide additional guidance on how to determine the level of aggregation of disclosures without impairing the usefulness of the information. Because classification (such as class of financial instruments in relation to aggregation and disaggregation in IFRS 7) is not necessarily relevant to contracts related to renewable electricity accounted for as executory contracts or derivatives, we believe it is necessary to develop specific guidance to assist entities in making consistent judgement about the level of aggregation of disclosures.

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?

28. We disagree with the effective date for the amendments to be annual reporting periods beginning on or after 1 January 2025. This is because we think the proposal results in requiring an entity to apply the amendments with a shorter period for preparation than the usual period for amendments to IFRS Accounting Standards. We think the IASB should allow entities sufficient time to prepare for implementing the amended standards, while allowing entities that wish to apply the amendments to do so by permitting early application.

[EOD]