

7 August 2024

Mr. Andreas Barckow  
Chair  
International Accounting Standards Board

**Re: Contracts for Renewable Electricity**

Dear Mr. Barckow,

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on the Exposure Draft *Contracts for Renewable Electricity* (hereinafter referred to as the “ED”) published on 8 May 2024.

The SAAJ is a not-for-profit organization for professionals in the areas of investment and finance, offering education and certification programs in these fields. Its certified member analysts (holding the CMA designation) number around 29,000.

The CAC is a standing committee of the SAAJ composed of 11 members, most of whom are users of financial statements including equity and credit analysts, portfolio managers, and academics.

The SAAJ sent a questionnaire survey on the ED to members of the CAC and CMAs, of which 12 responded. This comment letter is based on the ED questionnaire results and the discussions among members of the CAC. Please see the attached questionnaire results.

Below are our comments on each question.

**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?

We agree with these proposals. In **Q1** of our questionnaire, 75.0% of respondents agreed.

The proposals in the ED would add an “exception to the exception” and an “exception” to the current standards, as we comment in Questions 2 and 3, by limiting the scope of application to only contracts for renewable electricity with specified characteristics. This could potentially result in different standards being applied to similar transactions.

Some suggested that fundamental and permanent standards for all renewable energy certificates (RECs) should be developed, while others are concerned that the proposals in the ED could be perceived as favoring specific transactions and industries.

Nevertheless, reducing greenhouse gas emissions is a global issue and there is an urgent need to resolve the accounting issues in some jurisdictions that promote power purchase agreements (PPAs) as a matter of policy. Therefore, limiting the scope of application may be justified as a means of addressing these issues.

We believe that the scope of the proposed amendment is designed so that the proposed requirements cannot be applied by analogy to such contracts with a significant degree of control over the amount of power generation, including contracts for biomass energy and some contracts for hydroelectricity. This would appropriately address stakeholders’ concerns while limiting unintended consequences for the accounting of other contracts.

#### **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?

We agree with these proposals. In **Q2** of our questionnaire, 72.7% of respondents agreed.

The proposals would add an “exception to the exception” for physical PPAs to the “own-use requirements” for “contracts to buy or sell a non-financial item” in the current IFRS 9 *Financial Instruments*. An “exception to the exception” may not be in line with the concept of principle-based IFRS Accounting Standards. It could increase the complexity of accounting and reduce the understandability of users.

However, this “exception to the exception” may be justified because recognizing changes in the fair value of physical PPAs, most of which are very long-term fixed-price contracts, in profit or loss would make the entity’s performance highly volatile over a long period of time, which is not desirable for users to assess the profitability of the entity.

**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?

We basically agree with these proposals, but have a suggestion for improvement. In **Q3** of our questionnaire, 63.6% of respondents agreed.

The proposals would add an “exception” for virtual PPAs to the “hedge accounting requirements” in the current IFRS 9 *Financial Instruments*.

This “exception” may be justified because the current standards do not contemplate contracts such as virtual PPAs and, as commented to Question 2, recognizing changes in the fair value of virtual PPAs, most of which are very long-term fixed-price contracts, in profit or loss would make the entity’s performance highly volatile over a long period of time, which is not desirable for users to assess the profitability of the entity.

However, we would like to suggest an improvement. Paragraph 6.10.6 of the proposed amendment to IFRS 9 refers to the qualifying criteria for cash flow hedges, but does not explicitly specify the method for assessing effectiveness. Therefore, we encourage the IASB to add an illustrative example to clarify the difference between volume and price aspects.

**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?

We disagree with one of these proposals. In **Q4** of our questionnaire, 16.7% of respondents agreed, 25.0% disagreed, and 58.3% neither agreed nor disagreed; “agree” was a minority response.

We are very concerned that for contracts for renewable electricity that are not measured at fair value through profit or loss, disclosure of “(ii) the volume of renewable 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” is permitted as well as disclosure of “(i) the fair value of the contracts at the reporting date”.

Most contracts for renewable electricity covered by the ED 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 recognizing this counterparty risk.

The fair value disclosure in (i) and the volume disclosure in (ii) are completely different in nature. If volume disclosure is permitted, it could encourage contracting parties to enter into contracts without fully understanding the counterparty risk, thereby expanding the market in an unsound manner. In addition, volume disclosure would not enable users to fully understand how the contracts affect the amount, timing and uncertainty of the entity’s future cash flows (including the status of counterparty risk).

Adding contract price information to the volume information disclosed in (ii) might enable users to estimate something close to fair value. However, this would be onerous for preparers to disclose and for users to calculate, which is not desirable.

We understand that determining the fair value of physical and virtual PPAs is complex and subject to high levels of measurement uncertainty. The fact that these are bilateral contracts between the generator and the purchaser, as opposed to typical derivatives where one of the contracting parties is a financial instrument dealer, may also make it difficult to determine the fair value.

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.

**Question 5—Proposed disclosure requirements for subsidiaries without public accountability**

Paragraphs 67A–67C of the proposed amendments to the forthcoming IFRS 19 Subsidiaries without Public Accountability: Disclosures would require an

eligible subsidiary to disclose information about its contracts for renewable electricity with specified characteristics.

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 these proposals. In **Q5** of our questionnaire, 41.7% of respondents agreed, 16.7% disagreed, and 41.7% neither agreed nor disagreed.

Although simplified disclosure should be allowed for subsidiaries without public accountability, it is not necessary to oppose the proposals.

Some suggested that not only subsidiaries but also associates and joint ventures should be covered because there are many companies and projects with contracts for renewable electricity that are not subsidiaries to all shareholders.

**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 these proposals. In **Q6** of our questionnaire, 91.7% of respondents agreed.

#### **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 think that an effective date of annual reporting periods beginning on or after 1 January 2025 would be appropriate. In **Q7** of our questionnaire, 63.6% of respondents agreed.

Although we are unsure if companies will have enough time to prepare, we do not oppose to an earlier effective date given the urgent need to resolve the accounting issues.

Sincerely yours,



Satoshi Komiyama

Chair

Corporate Accounting Committee

## Attachment: Questionnaire Results on the ED

The SAAJ sent a questionnaire survey on the ED to members of the CAC and CMAs, of which 12 responded.

### Q1: Scope of the proposed amendments...Question 1

(a) Yes	9	75.0%
(b) No	2	16.7%
(c) Neither “Yes” nor “No”	1	8.3%
Total	12	100.0%

### Q2: Proposed ‘own-use’ requirements...Question 2

(a) Yes	8	72.7%
(b) No	3	27.3%
(c) Neither “Yes” nor “No”	0	0.0%
Total	11	100.0%

### Q3: Proposed hedge accounting requirements...Question 3

(a) Yes	7	63.6%
(b) No	1	9.1%
(c) Neither “Yes” nor “No”	3	27.3%
Total	12	100.0%

### Q4: Proposed disclosure requirements...Question 4

(a) Yes	2	16.7%
(b) No	3	25.0%
(c) Neither “Yes” nor “No”	7	58.3%
Total	12	100.0%

**Q5: Proposed disclosure requirements for subsidiaries without public accountability**

...**Question 5**

(a) Yes	5	41.7%
(b) No	2	16.7%
(c) Neither “Yes” nor “No”	5	41.7%
Total	12	100.0%

**Q6: Transition requirements...Question 6**

(a) Yes	11	91.7%
(b) No	1	8.3%
(c) Neither “Yes” nor “No”	0	0.0%
Total	12	100.0%

**Q7: Effective date...Question 7**

(a) Yes	7	63.6%
(b) No	3	27.3%
(c) Neither “Yes” nor “No”	1	9.1%
Total	12	100.0%