Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

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

29 July 2024

Dear Dr Barckow,

Exposure Draft: Contracts for Renewable Energy - Proposed Amendments to IFRS 9 and IFRS 7

By way of introduction, we would like to emphasize that we are very much in favour of the proposals made in the exposure draft (the ED) and thank the IASB for the speed with which the IASB has sought to provide a pragmatic solution to this newly identified issue. Indeed, as we have had the opportunity to explain, in the context of the heavy pressure weighing on our industries to decarbonise their activities, one has observed a strong increase in the number of contracts for the purchase of renewable energy (PPAs) that have been entered into. We are also pleased that the IASB has elected to deal with the whole range of such contracts, that is, both physical and virtual PPAs, since the choice of contract type is most frequently not at the behest of entities but rather dictated by regulatory provisions.

Although it is evident that the proposals in the ED will not resolve all the accounting issues raised by these new contracts, we are satisfied with the proposed amendments overall and will make comments only on the few aspects of the proposals which we consider are both a problem for entities and are relatively easy to resolve.

If you require any further information about our comments on the ED, please do not hesitate to contact us.

Yours sincerely,

ACTEO	AFEP	MEDEF
Lise CHORQUES	Lé Quang TRAN VAN	Karine MERLE

Question 1—Scope of the proposed amendment

We think that the scope of the proposed amendments represents a good balance between addressing these new contracts as we requested and the IASB's wish, which we understand, not to broaden too widely the application of these proposed exemptions to the general model.

We therefore support the two main concepts of (i) "nature-dependent" source of production introduced in draft paragraph 6.10.1(a) and (ii) "volume risk" as described in paragraph 6.10.1(b). As we agree that "pay-as-produced" contracts fit pefectly with these two criteria, we also believe that it is the same for "pay-as-nominated" contracts.

Question 2—Proposed 'own-use' requirements

We agree with the proposed amendments along with the criteria for their application which seem to us to be suitable for the contracts envisaged by the scope.

We would like, nonetheless, to raise the issue of the example given in paragraph 6.10.3(b)(iii) which suggests that one month is a reasonable period in which the entity will purchase an equivalent volume of electricity. We have observed that this example has already been enshrined as a principle by certain stakeholders. We would therefore suggest that the rationale laid out in the Basis for Conclusions be incorporated into the body of the standard, to make it clear that what is "reasonable" depends on an entity's operations, and to strike out the current example or, failing that, extend it to 12 months. In view of the very long lifetime that these contracts may have, a period of 12 months maximum seems reasonable and, in particular, would avoid any issues related to the effect of the seasonality of contracts.

We would also draw the Board's attention to the fact that there may be "unusual" situations beyond the purchaser's control that prevent it from complying with criterion 6.10.3(b)(iii). For example, a PPA contract may start on 1 January, but an operational site may not start up until October due to a delay in construction.

Similarly, there may be prolonged plant shutdowns or significant unanticipated under-activity (linked, for example, to a fire requiring total or partial reconstruction, or a pandemic) lasting more than 12 months. These situations should not call into question the qualification of own use.

Additionally, in our jurisdiction (and probably in others as well) entities might be obliged to sell the energy purchased by means of the PPA to an aggregator who is the only one having the technical capacity to realise the transfer of the energy via the production sites. We consider that this sale is a technical constraint and does not respond directly to the condition of paragraph 6.10.3(b)(i), that is, "the sale arises from the entity's exposure to the volume risk". It should not, therefore exclude qualification of such volumes as "own use" when the rest of the criteria are met and the intention of management is in fact "to receive electricity in accordance with the entity's expected purchase or usage requirements. The entities do not buy and sell the electricity for the purpose of generating a profit from short-term fluctuations in price or dealer's margin"

Finally, we would like to confirm that if a contract anticipates an increase in consumption in future years, and therefore does not meet the "net seller" criterion in the first 3 years for example (because it is oversized over this period), it could benefit from the exemption at later date, when it will meet all the

criteria. We understand, as stated in paragraph 6.10.3, that the analysis is carried out "at inception of the contract and at each subsequent reporting date".

Question 3—Proposed hedge accounting requirements

We agree with the proposed amendments, which should eliminate a certain number of difficulties we encounter today.

In the context of a contract with a very long lifetime, the notion of “highly probable” can be difficult to apprehend and document. It could be helpful, but perhaps at a later date, if the IASB could provide further guidance about its practical application.

Question 4—Proposed disclosure requirements

- We do not agree with the objective stated in paragraph 42T, which relates to the effect of all the contracts for the purchase of renewable energy which satisfy the characteristics described in paragraph 6.10.1

  We think that if complementary information is to be provided, then it must be limited to contracts which are not already covered by current requirements. Thus, contracts having such characteristics but which do not necessarily qualify for the own use exemption will be accounted for as derivatives and consequently already subject to the disclosure requirements relating to these instruments.

- Moreover, since the contracts defined by paragraph 6.10.1 require special treatment under the standard, the principal objective should, in our opinion, be to allow users to understand why these contracts qualify for the own use exemption. As a result, a description of their principal characteristics and the way they operate can be useful. However, this is not in itself sufficient to justify a treatment different from that required for other contract commitments that the group may have. We therefore think that the disclosure requirements of paragraph 42V are excessive. What would be reasonable, in our opinion, would be to require, for example, the total amount of the commitments arising from these contracts in a similar way to that which used to be required for lease contracts.

- In the same vein, given that the IASB has considered that fair value measurement is not relevant for these instruments, which therefore qualify for an exemption from accounting treatment, we do not understand why it is required to disclose their fair value in the notes to the financial statements or to provide other information that enables the fair value to be approximated (paragraph 42T(b).

- In addition, certain of the proposed requirements seem to us to be more relevant to a sustainability report rather than in financial statements. This is the case with, for example, the requirements of 42V(a) and (b). Furthermore, although of a nature more in line with sustainability reporting, the information required is not fully consistent

with the information currently imposed by sustainability standards. The proportion of energy purchases represented by the contracts responding to the characteristics of paragraph 6.10.1 does not constitute the whole set of the contracts for the purchase of renewable energy and thus the information provided would not be consistent with what might be reported under sustainability standards. We do not understand the rationale behind the proposed requirement for the disclosure of the total net volume of electricity purchased irrespective of the source of production and how this responds to the disclosure objective for PPAs.