Contracts Referencing Nature-dependent Electricity

Amendments to IFRS 9 and IFRS 7

Contracts Referencing Nature-dependent Electricity is issued by the International Accounting Standards Board (IASB).

Copies of IASB publications may be ordered from the Foundation by emailing customerservices@ifrs.org or by visiting our shop at https://shop.ifrs.org.

The Foundation is a not-for-profit corporation under the General Corporation Law of the State of Delaware, USA and operates in England and Wales as an overseas company (Company number: FC023235) with its principal office in the Columbus Building, 7 Westferry Circus, Canary Wharf, London, E14 4HD

Approval by the IASB of *Contracts Referencing Nature-dependent Electricity* issued in December 2024

Contracts Referencing Nature-dependent Electricity was approved for issue by 12 of the 14 members of the International Accounting Standards Board (IASB). Messrs Mackenzie and Uhl dissented from the issue of the amendments. Their dissenting opinions are set out after the Basis for Conclusions on IFRS 9 *Financial Instruments*.

Andreas Barckow	Chair
Linda Mezon-Hutter	Vice-Chair
Nick Anderson	
Patrina Buchanan	
Tadeu Cendon	
Florian Esterer	
Zach Gast	
Hagit Keren	
Jianqiao Lu	
Bruce Mackenzie	
Bertrand Perrin	
Rika Suzuki	
Ann Tarca	
Robert Uhl	

Amendments to the Illustrative Examples on IFRS 9 *Financial Instruments*

Paragraphs IE148−IE159 and their subheadings are added. For ease of reading, new text is not underlined.

Hedge accounting for nature-dependent electricity contracts

IE148 This example illustrates one possible way for an entity to designate forecast electricity purchases as the hedged item with a variable nominal amount in a cash flow hedge in accordance with paragraph 6.10.1 of IFRS 9.

Example 19—Designation of a variable nominal amount if using contracts referencing nature-dependent electricity as hedging instruments

Fact pattern

IE149 Entity A is a machine manufacturer in Region One and purchases electricity from the market in that region as and when it needs electricity (that is, on-demand). To hedge the unit price per megawatt hour (MWh) purchased, Entity A enters into a 25-year virtual power purchase agreement with Wind Farm X, which generates and delivers renewable electricity to the market in Region Two.

IE150 This virtual power purchase agreement necessitates net settlement of the difference between the fixed unit price specified in the contract and the market price based on the amount of renewable electricity delivered by Wind Farm X to the market in Region Two. Entity A settles the contracts net in cash in arrears based on the actual amount of electricity Wind Farm X delivered to the market in Region Two during a calendar month. The contract qualifies as a contract referencing nature-dependent electricity (as described in paragraph 2.3A of IFRS 9). Entity A wants to designate this contract as a hedging instrument in a cash flow hedge to hedge the cash flow variability of future electricity purchases.

Designating a variable nominal amount as the hedged item (paragraph 6.10.1 of IFRS 9)

IE151 Entity A designates as a cash flow hedge the hedging relationship between:

(a) its forecast electricity purchases in Region One for a term of 25 years (as the hedged item); and

(b) the contract for nature-dependent electricity described in IE150 (as the hedging instrument).

IE152 In line with its risk management strategy, Entity A wants to designate as the hedged item a variable nominal amount of electricity purchases per month that is aligned to the variable nominal amount of electricity that Wind Farm X is expected to deliver to the market as referenced in the hedging instrument. Entity A allocates the first purchases made each month to the variable nominal amount designated.

IE153 Entity A uses a probability-based assessment to determine whether the designated amount of electricity purchases for each month is highly probable. It expects its monthly electricity purchases to continue over the hedged term, based on its current and past practice (that is, at the time of designation Entity A does not have any information to the contrary). Based on the probability assessment, Entity A determines that it is highly probable that the amount of the entity's forecast electricity purchases will be higher than or equal to the variable nominal amount designated as the hedged item.

Effectiveness of the hedging relationship

IE154 To assess the effectiveness of the hedging relationship, Entity A assesses whether there is an economic relationship between the hedged item (future electricity purchases) and the hedging instrument (the contract referencing nature-dependent electricity). Although Entity A purchases future electricity in Region One and Wind Farm X delivers nature-dependent electricity to Region Two, this difference in reference markets does not preclude an economic relationship. If the hedged item and the hedging instrument have an economic relationship, their values would generally move in opposite directions as a result of the same risk—that is, the hedged risk (as set out in paragraph B6.4.4 of IFRS 9).

IE155 However, Entity A identifies two potential sources of ineffectiveness. The first is the basis risk associated with the variation in market prices of electricity between Region One and Region Two. The second is structural price differences—that is, the difference in the forecast market prices of electricity at the time of purchases to meet electricity demand of Entity A (reflected in the hedged item) and the forecast market prices at the time of delivery of electricity by Wind Farm X under the contract referencing nature-dependent electricity that are used to calculate the cash flows for net settlement (reflected in the hedging instrument).

IE156 For the forecast purchases of electricity, forecast market prices are modelled based on the expected future electricity spot price, which might vary depending on the timing of the purchase (for example, peak or off-peak). For example, Entity A might use an expected future baseload price in Region One and adjust that price for the timing of the expected consumption over a month, to reflect the actual timing of the purchase to meet demand. This method results in an average forecast market price per monthly volume purchased.

IE157 The forecast market prices for the volume expected to be delivered under the hedging instrument are also modelled based on the expected future electricity spot price. For example, Entity A might use an expected future baseload price in Region Two (as opposed to Region One because the hedging instrument is referencing a different spot market) adjusted for the expected production and hence the delivery profile of Wind Farm X for that same month. This method results in another average forecast market price for the same monthly volume, which might then lead to hedging ineffectiveness. Despite these sources of ineffectiveness, Entity A determines that an economic relationship exists.

Measurement

IE158 The variable nominal amounts of the hedged item and hedging instrument are both based on the variable volume of nature-dependent electricity Wind Farm X is expected to deliver to the electricity market in Region Two. Therefore, Entity A uses the same volume assumptions it uses to measure the contract referencing nature-dependent electricity to construct a hypothetical derivative to measure the changes in present value of the hedged item. However, with regards to the forecast market prices, Entity A bases its assumptions on the characteristics of the respective markets as described in paragraphs IE156–IE157.

IE159 Entity A adjusts the cash flow hedge reserve in accordance with paragraph 6.5.11(a) to the lower of:

(a) the cumulative gain or loss on the hedging instrument from inception of the hedge; and

(b) the cumulative change in fair value (present value) of the hedged item (that is, the present value of the cumulative change in the hedged expected future cash flows, which for the volume assumptions only are aligned with the ones from the hedging instrument) from inception of the hedge.

Amendments to the Basis for Conclusions on IFRS 9 *Financial Instruments*

Paragraphs BC2.17A–BC2.17I, BC2.18A–BC2.18K, BC6.661–BC6.683, BC7.104–BC7.110 and their subheadings are added. Paragraphs DO1–DO11 and their subheading have also been added. For ease of reading, new text is not underlined.

Scope (Chapter 2)

...

Contracts referencing nature-dependent electricity

Background

BC2.17A In December 2024, the IASB issued *Contracts Referencing Nature-dependent Electricity*, which amended IFRS 9 and IFRS 7 *Financial Instruments: Disclosures*. The amendments arose from a request submitted to the IFRS Interpretations Committee (Committee) asking how an entity would apply paragraph 2.4 of IFRS 9 (informally referred to as the 'own-use' exception) to contracts to buy and take delivery of electricity generated from nature-dependent sources. Stakeholders told the Committee that applying the requirements in IFRS 9 to these contracts sometimes provided less useful information to users of financial statements (investors). Stakeholders also said a timely solution was necessary because of an expected increase in the use of such contracts due to the increase in the demand for renewable electricity. Because the matter is widespread and has, or is expected to have, a material effect on those affected, the Committee referred the matter to the IASB.

BC2.17B The IASB decided to amend IFRS 9 to enable entities to include information in its financial statements that more faithfully represent contracts referencing nature-dependent electricity. The IASB also decided to amend IFRS 7 to include complementary disclosure requirements. With these amendments, the IASB aimed to balance the need for a timely solution with the importance of minimising the risk of unintended consequences any amendments could have on how an entity applies IFRS 9 to other contracts. It was, therefore, important to the IASB that an entity would not be permitted to apply the amendments by analogy to other contracts, items or transactions.

Costs and benefits

BC2.17C The IASB concluded that the benefits of the amendments to IFRS 9 would outweigh the costs. The IASB acknowledged that although the initial application of the amendments might result in additional costs for entities, the ongoing costs of applying the amendments to the own-use exception or to the hedge accounting requirements are expected to be less than the benefits to be gained.

Scope of the amendments (paragraphs 2.3A–2.3B)

BC2.17D Contracts referencing nature-dependent electricity are characterised by contractual features exposing an entity to variability in the underlying amount of electricity because the electricity is generated from a source dependent on uncontrollable natural conditions. This variability is typically associated with renewable electricity sources, such as sun and wind. For example, solar electricity generation varies with uncontrollable natural conditions like daylight availability and weather conditions like cloud cover. The IASB decided to set the scope of the amendments to contracts referencing nature-dependent electricity because, in doing so, it would meet the objective of finding a timely solution while minimising the risk of unintended consequences.

BC2.17E The submitter of the request asked about contracts to buy and take delivery of electricity generated from nature-dependent sources. However, stakeholders said that if the IASB were to consider narrow-scope standard-setting for the own-use exception that applies to such contracts, it should also consider how an entity applies the hedge accounting requirements to contracts referencing nature-dependent electricity that are accounted for as financial instruments. Stakeholders said that the economic outcomes of these types of contracts referencing nature-dependent electricity are similar to those of own-use contracts. These stakeholders explained that, in many cases, the design and operation of an electricity market determines the types of contracts entities can enter into. Because of these factors, the IASB decided to include within the scope of the amendments both contracts to buy or sell nature-dependent electricity and financial instruments that reference such electricity.

BC2.17F Contracts referencing nature-dependent electricity might be accounted for in accordance with IFRS Accounting Standards other than IFRS 9 or result in the application of other Standards; for example, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 16 *Leases*, IAS 28 *Investments in Associates and Joint Ventures* or IFRIC 12 *Service Concession Arrangements*. Stakeholders did not express concerns about contracts referencing nature-dependent electricity that entities account for applying other IFRS Accounting Standards. The IASB, therefore, decided to limit the scope of the amendments to contracts to which the requirements in IFRS 9 apply.

BC2.17G The IASB also considered whether to include in the amendments other types of electricity contracts. However, stakeholders did not raise the same concerns for other types of contracts as they did for contracts that have the characteristics described in paragraph 2.3A. For example, the IASB did not intend to include contracts for electricity generated from biofuel within the scope of the amendments because such electricity generation is not subject to the same uncertainty as those within the scope. Stakeholders said that biofuel power plants can operate more like traditional fossil fuel power plants, because the source of electricity generation is controllable. Biofuel, which is derived from organic materials such as plant biomass, animal waste, and recycled waste, can be stored until used to generate electricity. These characteristics allow biofuel power plants to generate electricity on demand, unlike, for example, wind power, which depends on uncontrollable natural conditions.

Unit of account

BC2.17H Some stakeholders said that, in their jurisdictions, entities cannot access the electricity market directly but use an intermediary to do so on their behalf. In such jurisdictions, entities are required to enter into contracts for ancillary services. The stakeholders explained that such ancillary service contracts are entered into and negotiated independently from the contracts referencing nature-dependent electricity. Stakeholders are unclear how to identify the unit of account in a market design that includes more than one contract with more than one party. The IASB acknowledged that it might be difficult for an entity in these jurisdictions to identify the unit of account. Unlike other IFRS Accounting Standards, IFRS 9 does not include requirements for the combination of contracts. However, the IASB concluded that it cannot develop requirements for identifying the unit of account without considering a variety of financial instruments and other contracts. Such a project would go beyond the scope of a narrow-scope project. The IASB accepted that before an entity identifies whether the amendments apply to a contract, the entity would consider the substance of its rights and obligations.

BC2.17I Stakeholders also said that contracts referencing nature-dependent electricity are typically accompanied by renewable energy certificates (RECs) or similar certificates, schemes or accreditations. RECs are market-based instruments certifying that the bearer owns electricity produced from a renewable production facility. RECs are typically an important incentive for entities to enter into contracts referencing nature-dependent electricity. The IASB concluded that it can effectively respond to stakeholders' concerns about contracts referencing nature-dependent electricity separately from the questions about accounting for RECs and how such accounting relates to the accounting for these contracts. If the IASB had included RECs within this project, that inclusion would have unnecessarily delayed the project because the IASB would have had to consider a broader range of arrangements.

Contracts to buy or sell a non-financial item

...

Contracts to buy electricity generated from sources dependent on uncontrollable natural conditions (paragraphs B2.7–B2.8)

BC2.18A Paragraph 2.3A of IFRS 9 sets out the characteristics of contracts referencing nature-dependent electricity. These characteristics, coupled with an entity being contractually required to buy and take delivery of a contracted amount of electricity when it is generated, can give rise to mismatches between the electricity delivered to the entity and the entity's electricity demand at the time of delivery. When these mismatches occur, the entity sells its unused electricity. Stakeholders told the IASB that even if these sales are expected from the start of the contract and might be substantial or frequent, an entity's intention when entering into these contracts is to take delivery of electricity in accordance with the entity's expected usage requirements. Therefore, these sales are not evidence of a profit-taking motive. The accounting treatment required by paragraph 2.4 of IFRS 9 depends on, and reflects, the purpose for which the contracts to buy or sell non-financial items are entered into and continue to be held (see paragraph BCZ2.27(a)). The IASB concluded that the own-use exception does not clearly state how an entity considers sales of unused electricity that arise from these contracts.

BC2.18B Consequently, the IASB developed the application guidance in paragraphs B2.7–B2.8 to help entities assess whether a contract to buy electricity generated from a source dependent on natural conditions is held for the entity's own-use expectations in accordance with paragraph 2.4. This application guidance is designed to clarify when sales of electricity during the contract period are still in accordance with the entity's expected electricity usage requirements. The IASB confirmed that paragraph 2.4 and the additional considerations in paragraphs B2.7–B2.8 do not apply to contracts referencing nature-dependent electricity that are required to be settled net in cash or another financial instrument. These contracts do not require an entity to buy and take delivery of electricity and, like other commodity derivatives, are accounted for as financial instruments within the scope of IFRS 9.

Nature of the contractual terms and risk that an entity would be required to buy electricity it cannot use at that time

BC2.18C For an entity's sales of its unused electricity that occur during the contract period to be in accordance with the entity's expected electricity usage requirements, the IASB decided that the contract needs to require the entity to buy an amount of nature-dependent electricity when the electricity is generated, which might not be when the entity needs electricity. Under a qualifying contract, the entity is exposed to the risk that during a delivery interval, it could take delivery of either too much or not enough electricity for its needs at the time. For the purposes of applying paragraph 2.4, the IASB concluded that the risk of an entity receiving an amount or quality of electricity that it cannot use is relevant because it is this situation that results in sales of unused electricity.

BC2.18D The IASB's conclusion responds to questions about how to consider contractual features that affect the extent of an entity's exposure to variability in the underlying amount of electricity. The IASB noted that the contract can be structured in many ways, for example to include risk mitigation features like caps and floors. The requirement in paragraph B2.7 of IFRS 9 is for the contract to expose an entity to the risk of taking delivery of an amount or quality of electricity during any delivery interval that it cannot use at that time. For example, a contract can expose an entity to this risk even if the amount of electricity is contractually capped at 100 units of electricity per day. The referenced production facility might generate and deliver the 100 units of electricity over several delivery intervals throughout the day and still exceed the entity's electricity needs at the time of delivery.

Design and operation of the electricity market in which the electricity is transacted under the contract

BC2.18E Stakeholders told the IASB that an entity's sales of unused electricity occur not only because of contractual features, but also because of the design and operation of the electricity market. Some electricity markets will either compel the entity to sell unused electricity back into the market or, for example, dictate that if the entity fails to sell the electricity, the independent market system operator can fine the entity a (sometimes punitive) penalty in order to 'balance' the electricity grid network. Electricity markets operate this way because these markets balance the amount of electricity being generated and the amount being consumed. Electricity is difficult to store and an imbalance can lead to blackouts or electricity shortages. The IASB concluded that for sales to remain aligned with an entity's expected electricity usage requirements, it is necessary for the design and operation of the market in which the electricity is delivered and then sold to result in the entity having no practical ability to avoid selling any unused electricity. If the market design offers an entity alternatives to selling its unused electricity—for example, making electricity storage facilities available—the entity is not permitted to use the additional considerations in paragraph B2.7 of IFRS 9. The entity would apply only the requirements in paragraph 2.4 of IFRS 9 because these requirements are adequate to enable the entity to determine the appropriate accounting.

BC2.18F The IASB decided that to have no practical ability to avoid selling any unused electricity, an entity needs to be 'at the mercy' of the market with regard to *when* sales of unused electricity occur. Entity-specific actions (for example, storing the electricity) that provide an entity with the practical ability to avoid a sale or determine the timing of such a sale mean the sales are not required due to the market design. The IASB therefore concluded that the timing of the sale is the important factor in assessing the market design. The IASB noted that this decision also enables the requirements to allow for different types of market designs or operations while preserving the main principle.

Net-purchaser assessment

BC2.18G To ensure the amendments maintain the underlying principle behind the own-use exception, to reduce the risk of entities structuring transactions or contracts and to include adequate rigour within the amendments, the IASB decided to require that an entity was and expects to be a net purchaser of electricity over a reasonable amount of time. The IASB decided that an entity is a net purchaser if it buys sufficient electricity to offset the sales of any unused electricity. To qualify as a net purchaser an entity would need to expect to have enough headroom in its overall demand so that the expected purchases offset the sales of any unused electricity delivered under the contract.

BC2.18H The IASB included the 'reasonable amount of time' requirement to ensure that an entity that sells unused electricity purchases in good time at least an equivalent amount of electricity. The IASB intends for a 'reasonable amount of time' to be typically a short period. However, the IASB noted that factors like the seasonal cycle of the natural source of the electricity generation and the cyclicality of an entity's operations might affect the time it takes for an entity to offset sales with purchases. The IASB decided to require an entity to consider these factors when identifying a 'reasonable amount of time'. By requiring an entity to consider the seasonal cycle of the natural source of the electricity generation, the IASB limited 'a reasonable amount of time' to be no more than a full cycle of 12 months.

BC2.18I Paragraph 2.4 requires an entity to consider *the entity's* expected usage requirements. The IASB decided that an entity also makes the net-purchaser assessment at the entity level. The IASB however decided that it would be inappropriate for an entity to consider its expected purchases at the level of an electricity market other than the one in which the entity originally took delivery of and sold the electricity. Therefore, the requirements state that an entity is a net purchaser of electricity only if it buys sufficient electricity *in the same market* in which the entity originally took delivery of and then sold the electricity. The IASB considered an example of an entity that enters into a contract to buy and take delivery of nature-dependent electricity in the same market as its hydrogen production facility. Because of the variability in the underlying amount of electricity generated, the entity negotiates a contract for 120% of the electricity consumption capacity of the hydrogen facility. Applying the requirements in paragraphs B2.7–B2.8 of IFRS 9, the entity is not required to make the net-purchaser assessment at the level of the hydrogen facility. Instead, the entity would make the net-purchaser assessment at the level of the purchases in the market in which the entity takes delivery of the nature-dependent electricity under the contract.

BC2.18J In relation to how an entity identifies the market in which it *takes delivery* of electricity, the IASB noted that paragraph 2.4 refers to 'the receipt or delivery of a non-financial item'. The IASB decided not to include requirements about the meaning of delivery because the Committee considered this matter in its Agenda Decision *Meaning of Delivery (IAS 39* Financial Instruments: Recognition and Measurement*)* (August 2005). In the Agenda Decision, the Committee noted that 'delivery' for the purposes of the own-use exception is not necessarily restricted to the physical delivery of the underlying to a specific customer, because physical delivery is not a condition of the exception. The Committee was of the view that an allocation of the non-financial item to the customer's account could be regarded as 'delivery'. An entity needs to apply its judgement to determine in which market the entity takes delivery of electricity under the contract, with the understanding that 'delivery' does not have to be 'physical' delivery.

BC2.18K Many contracts to buy and take delivery of nature-dependent electricity are long-dated (for example, have a term of 25 years). To assess whether it has been, and expects to be, a net purchaser of electricity for the contract period, the IASB did not intend to require an entity to make a detailed estimate of past, current and expected sales and purchases of electricity for all time intervals within the contract period that are identified as a 'reasonable amount of time'. The IASB decided that its intention could be reflected using the phrase 'reasonable and supportable information (that is available without undue cost or effort)'. The IASB concluded that this phrase is well understood and is used in IFRS Accounting Standards like IFRS 9 and IFRS 17 *Insurance Contracts*. To include adequate rigour for when an entity identifies whether it *has been* a net purchaser, the IASB decided to require that an entity considers its electricity transactions for an assessment period that does not exceed 12 months. The IASB accepted that for a time following the inception of a contract, an entity might not have been able to be a net purchaser over a reasonable amount of time because such time has not yet lapsed. The IASB did not intend for such contracts to immediately fail the own-use exception. However, the IASB considered that the net-purchaser assessment is a holistic assessment of the purpose of the contract and the entity's expectations about its electricity usage. Therefore, the IASB decided not to add more requirements for such situations.

...

Hedge accounting (Chapter 6)

...

Contracts referencing nature-dependent electricity (paragraphs 6.10.1–6.10.2)

BC6.661 The IASB was asked to clarify how an entity applies the hedge accounting requirements in IFRS 9 when a contract referencing nature-dependent electricity with a variable nominal amount is designated as the hedging instrument.

Designating the hedged item

BC6.662 The IASB noted that paragraph 6.3.7 of IFRS 9 generally requires an entity to designate the hedged item as a specified nominal amount or volume, or as a component of such a nominal amount or volume. Changes to the hedged item, including changes in the nominal amount or volume to be designated, might result in the entity designating a new hedging relationship or might suggest a change in the entity's documented risk management objective, the latter of which would require the entity to discontinue all or part of an existing hedging relationship. In March 2019 the Committee concluded that to meet the requirements in IFRS 9 an entity would need to document a forecast transaction designated as the hedged item with enough specificity in terms of timing and magnitude to ensure that when such transactions occur, the entity can identify whether the transaction is the hedged transaction even if the forecast transaction is fully hedged through the hedging instrument once it occurs.

BC6.663 The IASB considered that an entity applying the requirements in paragraph 6.3.7 of IFRS 9 can only designate a specified nominal amount of forecast electricity transactions if they will occur with enough certainty and consistency throughout the duration of the hedging relationship. However, contracts referencing nature-dependent electricity expose an entity to variability in the underlying amount of electricity because the source of electricity generation depends on uncontrollable natural conditions. Therefore, determining a specified amount of electricity that would occur with enough specificity in terms of timing and magnitude would result in an entity only being able to designate a small portion of its forecast electricity transactions. The IASB concluded that these challenges could be resolved by permitting an entity to designate the hedged item as the variable nominal amount of electricity to which the hedging instrument relates.

Designating and identifying the hedged transaction

BC6.664 Stakeholders told the IASB that entities' risk management objective is to hedge only the price risk of forecast electricity purchases and not the uncertainty about the variable amount of electricity to be delivered. Therefore, designating a (variable) amount of forecast purchases that is aligned to the (variable) amount expected to be delivered by the generation facility is consistent with the entity's risk management objective. This risk management objective therefore includes accepting that the nominal amount designated as the hedged item might not always align with the expected forecast purchases. The IASB concluded that when an entity assesses whether an economic relationship exists, the entity is assessing only value changes that relate to the hedged risk of the designated (variable) amount (in this case, the price risk). The IASB also noted that IFRS 9 does not require that a hedging relationship be perfectly effective (for example, in hedging price risk) to qualify for hedge accounting.

BC6.665 The IASB considered that permitting an entity to designate a variable nominal amount of electricity as the hedged item is not the same as designating an absolute amount that varies from one period to the next (for example, 100 megawatt hours (MWh) for Period 1 and 130 megawatt hours (MWh) for Period 2). The IASB clarified that the variable nominal amount of forecast transactions to be designated as the hedged item relates to the forecast electricity transactions, which must be aligned with the nominal amount expected to be delivered by the generation facility referenced in the hedging instrument. In such a case the nominal amount expected to be delivered might refer either to the delivery by a referenced facility to the counterparty (for example a physical power purchase agreement) or to the delivery by the referenced facility to the market.

BC6.666 The IASB also noted that IFRS 9 does not require the timing and amount of the cash flows under the hedged item to be perfectly aligned with the cash flows on the hedging instrument. Therefore, the IASB was of the view that if an entity were permitted to align the nominal amount of forecast transactions designated as the hedged item with the variable amount of nature-dependent electricity expected to be delivered by the facility referenced in the hedging instrument, an economic relationship could still exist.

BC6.667 The IASB concluded that such a designation is consistent with IFRS 9, which requires that the hedged item be documented with enough specificity in terms of timing and magnitude. Using this designation option an entity specifies the period during which the variable nominal amount of the forecast transaction designated as the hedged item is expected to occur within a reasonably specific and generally narrow range of time from a most probable date, as a basis for assessing hedge effectiveness. At the same time the entity specifies the magnitude of the hedged item through its origin (that is, the variable amount expected to be delivered by the generation facility). Despite permitting the designation of a variable nominal amount of the forecast transaction as the hedged item, the IASB was of the view that the hedged item can still be identified with enough specificity because it occurs in each period—the facility referenced in the hedging instrument delivers nature-dependent electricity to the market or to a counterparty directly and therefore the nominal amount of the hedged item is confirmed periodically.

BC6.668 The IASB also considered it important to not conflate the designation and identification of the hedged item with the requirement to assess whether forecast electricity transactions are highly probable, which is a separate analysis.

Applying the requirement to assess whether forecast electricity transactions are highly probable

BC6.669 Stakeholders asked the IASB to clarify how an entity would assess whether future electricity purchases are highly probable if the entity is using a contract referencing nature-dependent electricity as the hedging instrument. Stakeholders were uncertain how an entity would make this assessment because such contracts are typically negotiated for a very long duration. Respondents to the Exposure Draft *Contracts for Renewable Electricity* asked whether entities are expected to make detailed estimates of future electricity purchases for every potential purchase interval or for periods far into the future. A few other respondents asked how granular the estimated purchase time intervals the entity uses should be when assessing whether future electricity purchases are highly probable.

BC6.670 The IASB noted that paragraph 6.3.3 of IFRS 9 requires the hedged item to be highly probable and considered that, in most hedging relationships, assessing whether the hedged item is highly probable usually involves a straight-forward probability assessment.

BC6.671 The IASB acknowledged that the longer the hedge period, the more complex it is to assess whether forecast transactions are highly probable. However, this challenge is not new—and it has been carried forward from IAS 39. Although IFRS 9 does not include specific application guidance on how to assess whether a transaction is highly probable, paragraph 6.3.3 of IFRS 9 is clear. An entity considers uncertainty about the timing and magnitude of a forecast transaction by using probabilities.

BC6.672 For any hedging relationship, the length of the hedged term is a factor in the assessment of a transaction's probability. Generally, the more distant a forecast transaction, the less likely it is that the transaction would be considered highly probable. However, the IASB noted that entities that currently purchase and use electricity will continue to do so in the future. Therefore, in the absence of evidence to the contrary (for example, an entity is aware at the time of the assessment that electricity demand in one location will decline) an entity would expect its electricity purchases based on its past and current purchase practice to continue for the hedged term, even if the hedged term extends far into the future. The IASB also noted that an entity entering into a long-dated contract referencing nature-dependent electricity has to make estimates and assumptions about its electricity purchases and therefore consumption over the contract period. An entity could use these estimates and assumptions in its assessment of whether future electricity purchases are highly probable.

BC6.673 The IASB considered how an entity decides on the frequency of the time intervals for the estimates of purchases it makes as part of its assessment. The IASB noted that although electricity purchases might occur on a near-continuous basis, an entity is not required to make detailed estimates of the amount of electricity it expects to purchase for every minute of every day. IFRS 9 does not require an entity to specify the accurate time and date of a forecast transaction for the purposes of hedge accounting (see paragraph BC6.667).

BC6.674 The IASB confirmed that the assessment of whether future electricity purchases are highly probable applies equally to forecast sales and purchases. However, if a contract referencing nature-dependent electricity requires net settlement only when an entity buys or sells electricity, any or all of the entity's forecast transactions would be covered by the contract. Therefore, the IASB clarified that if cash flows under the contract referencing nature-dependent electricity can arise only when there is a hedged sale or purchase, such forecast transactions could be deemed highly probable by nature or by design of the hedging relationship.

BC6.675 The IASB concluded that no further clarifications to the requirements in paragraph 6.3.3 are needed as noted in paragraph BC6.674.

Measuring the hedged item

BC6.676 Paragraph 6.5.11 of IFRS 9 requires an entity accounting for a qualifying cash flow hedging relationship to calculate the cumulative change in fair value (present value) of the hedged item from inception of the hedging relationship. Therefore, an entity calculates the changes in value of the hedged item based on how the hedged item has been designated, for example, whether the hedged item is designated as an entire item, a component of an item or a combination of components of an item. If the hedged item is designated as the variable nominal amount of renewable electricity of the hedging instrument, the entity measures the hedged item based on that variable amount. Consequently, the IASB concluded when measuring such a designated hedged item the entity uses volume assumptions equivalent to those it used to measure the hedging instrument. Aligning the volume assumptions between the hedged item and the hedging instrument insulates the hedging relationship from hedge ineffectiveness caused by a comparison of a fixed nominal amount with a variable nominal amount (that is, volume uncertainty).

BC6.677 The IASB acknowledged that hedge ineffectiveness caused by volume uncertainty should not arise because the volume of sales and the volume of electricity covered by the contract referencing nature-dependent electricity are typically fully aligned, which economically does not result in hedging ineffectiveness through volume mismatches as described in paragraph BC6.676. However, the IASB noted that hedge ineffectiveness for forecast electricity transactions could originate from other sources, particularly in the case of purchases of electricity. The IASB noted that there could be an economic effect—for example, if there is a difference between:

(a) the timing of purchases of electricity in the spot market and the timing of the actual deliveries used to calculate the cash flows under the contract referencing nature-dependent electricity (structural price differences between the purchase or consumption and delivery of electricity).

(b) the volume of electricity covered by the contract referencing nature-dependent electricity and the volume of spot purchases. If the volume covered by the contract exceeds the purchased volume, the change in the hedging instrument's fair value would exceed the change in the hedged item's value.

(c) the spot price in the market in which forecast purchases are made (the hedged risk) and the spot price in the market in which the contract referencing nature-dependent electricity is settled. Such a scenario would occur, for example, if an entity that purchases electricity in one jurisdiction enters into a contract referencing nature-dependent electricity that refers, for settlement purposes, to a spot price in another jurisdiction.

BC6.678 IFRS 9 does not require that a hedging relationship be fully effective. As explained in paragraph BC6.241, many types of hedging relationships involve some hedge ineffectiveness that cannot be eliminated because of differences in the underlyings or other differences between the hedging instrument and the hedged item that an entity accepts to achieve a cost-effective hedging relationship.

BC6.679 However, the IASB noted that, applying paragraph 6.5.11 of IFRS 9 to determine hedge ineffectiveness, an entity would include in the measurement of the hedged item and the hedging instrument pricing differences or any other differences that represent actual economic effects.

BC6.680 The IASB noted that questions about the specificity of the time intervals over which the hedged cash flows are measured are not unique to hedging relationships to which an entity would apply the amendments. Many situations exist in which forecast transactions are expected to occur throughout a period, instead of just once. The IASB noted that the same situation arises for contracts referencing nature-dependent electricity—the delivery of the nature-dependent electricity that requires settlement under the contract could occur throughout the period. Therefore, an entity could measure the hedged cash flows using a method similar to the method it uses to measure other hedged items or hedging instruments for which transactions occur throughout the period.

BC6.681 The IASB acknowledged the concerns respondents raised about the hedged item simply mirroring the hedging instrument if an entity uses the same volume assumptions of the hedging instrument also for measurement of the hedged item. However, the IASB did not agree that the proposed amendments would result in such a situation (see paragraph BC6.667). The IASB is of the view that the hedged item is defined reflecting both the volumes that the facility referenced in the hedging instrument is expected to deliver either to the market or to a counterparty and the pricing of the designated forecast transaction. The IASB decided to clarify this view in the issued amendments.

Reclassification adjustment

BC6.682 Stakeholders identified additional challenges in calculating the reclassification adjustment when the hedged item is designated at an amount equal to the variable amount of nature-dependent electricity delivered to the spot market by the facility cited in the contract referencing nature-dependent electricity and then the hedging relationship is discontinued. An entity might discontinue a hedging relationship for many reasons, but the two main reasons are that the entity:

(a) does not have enough highly probable forecast transactions even if some of the hedged cash flows are still expected to occur; and

(b) has closed out and derecognised the hedging instrument.

BC6.683 The IASB concluded that IFRS 9 already contains guidance for this situation. An entity is expected to apply paragraph 6.5.11 of IFRS 9 consistently to all such situations in its hedging relationships.

Effective date and transition (Chapter 7)

...

Contracts referencing nature-dependent electricity (paragraphs 7.2.50–7.2.52)

BC7.104 The IASB expects that the amendments to the own-use exception in *Contracts Referencing Nature-dependent Electricity* would affect entities that account for their contracts to buy and take delivery of nature-dependent electricity as derivatives. In accordance with the amendments those entities might account for these contracts as executory contracts. Therefore, the IASB decided to require an entity to apply retrospectively the amendments to the own-use exception in accordance with IAS 8 *Basis of Preparation of Financial Statements*. However, the IASB also decided not to require an entity to restate comparative information. The IASB instead decided to permit an entity to restate prior periods if doing so is possible without the use of hindsight. This approach is consistent with the transition requirements in IFRS 9 and IFRS 7. The IASB initially proposed to permit early application of the requirements as soon as the amendments would be issued. However, respondents to the Exposure Draft questioned that approach and pointed out operational complexities as well as disadvantages for preparers who cannot contract physical delivery contracts. As a consequence, the IASB decided to limit early application to reporting periods beginning after the issue of the amendments.

BC7.105 The IASB also permits an entity at the date of initial application to irrevocably designate as at fair value through profit or loss in accordance with paragraph 2.5 a contract that is excluded from the scope of this Standard but matches the description in paragraph 2.3A. This approach is consistent with other transition requirements in IFRS 9.

BC7.106 Paragraph 7.2.53 requires an entity to apply prospectively the amendments from *Contracts Referencing Nature-dependent Electricity* to the hedge accounting requirements, which is also consistent with the transition requirements for other hedge accounting requirements in IFRS 9.

BC7.107 In response to the Exposure Draft, stakeholders said that prospective application would cause some hedging relationships to be designated after the inception of the contract referencing nature-dependent electricity. As a result the hedging instruments would be ‘off-market’ at designation. Stakeholders therefore suggested that an entity be permitted to apply the hedge accounting amendments retrospectively.

BC7.108 The IASB acknowledged the potential effects and consequences identified by stakeholders but confirmed that an entity can only apply hedge accounting prospectively. Hedge accounting is an exception to the recognition and measurement requirements in IFRS 9 and an entity designates the hedged item and hedging instrument on an instrument-by-instrument basis. Permitting retrospective application could create opportunities to designate hedging relationships to achieve a particular accounting outcome. Retrospective application might also result in an entity carrying profit or loss results from the past to the present and future, which might be akin to earnings management.

BC7.109 The IASB appreciated the difficulties caused by designating off-market hedging instruments in a new hedging relationship specific to these types of contracts which are very long dated. However, the IASB noted that off-market designation is not a new or unique problem, but was already present in applying the hedge accounting requirements in IAS 39.

BC7.110 In addition, the IASB noted that the purpose of permitting changes to a hedging relationship would be to apply a changed designation on a prospective basis only, without changing past periods. However, the IASB concluded that this permission might lead to operational complexities. Therefore, the IASB decided to permit an entity to discontinue a current hedging relationship to facilitate the designation of a new hedging relationship in accordance with the amendments in paragraphs 6.10.1–6.10.2 using the same hedging instrument.

...

Dissenting opinions

...

Dissent of Bruce Mackenzie and Robert Uhl from *Contracts Referencing Nature-dependent Electricity* (issued 2024)

DO1 Messrs Mackenzie and Uhl disagree with the expansion of the exception from the scope of IFRS 9 *Financial Instruments* as set out in this amendment to include some contracts referencing nature-dependent electricity.

DO2 In accordance with IFRS 9 (and before that, IAS 39 *Financial Instruments: Recognition and Measurement*) an entity is required to measure at fair value derivative contracts to buy or sell non-financial items that can be settled net in cash (or another financial instrument), unless the purpose of the receipt (or delivery) of the non-financial item is in accordance with the entity's expected usage (or purchase or sale) requirements. A practice of net settling all or part of a derivative contract, such as by selling the non-financial item in a readily available market upon its receipt, would not be consistent with the purpose of receipt for the entity's expected usage.

DO3 It has long been accepted that measurement at fair value through profit or loss provides the most relevant information for derivative contracts that can be settled net. It has also been accepted that measurement at fair value is not the most relevant measure if the purpose of a derivative contract is to buy the non-financial item for the entity's own use (as required by paragraph 2.4 of IFRS 9), thus providing the basis for the exception. An entity that has applied the exception is required to assess continuously whether it still meets the criteria to do so. If the entity's intention for a non-financial item changes (for example, because its need for the item has dissipated), its application of the exception also changes.

DO4 Entities have applied these requirements to contracts for the purchase (and sale) of electricity since IAS 39 became effective. Electricity has some characteristics that differ from those of other non-financial items, primarily that it currently cannot be efficiently stored and that market regulations typically require electricity that will not be used by an entity to be resold immediately in the spot market. Despite these differences, the requirements in IAS 39 and IFRS 9 have been accepted as relevant and representationally faithful.

DO5 In this project, the IASB has been presented with contracts referencing nature-dependent electricity that have particular characteristics. The difference between these contracts and other electricity contracts is that the source of generation of the specified electricity depends on uncontrollable natural conditions, and the purchasing entity is required to buy electricity generated from a referenced production facility when the electricity is generated (pay-as-produced contracts). Thus, the entity takes delivery of a variable amount of electricity over several delivery intervals. The amount might be more or less than expected because it is generated from a source dependent on uncontrollable natural conditions.

DO6 Messrs Mackenzie and Uhl accept that a further exception from the requirements in IFRS 9 might be warranted for situations in which a purchasing entity intends to use all the electricity expected to be produced and supplied under the contract, but natural conditions cause an increase in production above such expectation and the entity is forced to sell its unused excess. However, Messrs Mackenzie and Uhl disagree with the amendments because they would permit an entity to be exempt from the requirements in IFRS 9 even if the entity knew with reasonable certainty that for some periods during the contract (for example, particular hours or days) it would not use, but would sell, electricity delivered under the contract. According to the amendments, an entity that had entered into a contract referencing nature-dependent electricity would qualify for the own-use exception even if it knew from the inception of the contract that its demand in some periods would be lower than the expected delivery amounts and it therefore expected to sell the electricity supplied under the contract during those periods. Therefore, the entity might sell to the market, at a market price, electricity it knew it would never use, realising the fair value of that portion of the contract, but would still qualify for the own-use exception provided it intended to buy, presumably from the market at a market price, an equivalent amount of electricity.

DO7 Messrs Mackenzie and Uhl believe that the amendments might produce misleading information because if an entity used the exception for a derivative contract, a user of its financial statements would not expect the entity to know that in the future it will realise a net settlement at fair value for any portion of that contract.

DO8 Messrs Mackenzie and Uhl are therefore of the view that the further exception for contracts referencing nature-dependent electricity would lead to more lenient accounting than for other electricity contracts and contracts for other non-financial items, thereby raising questions about the accounting for these other types of contracts. To maintain faithful representation, accounting should be neutral.

DO9 Some stakeholders have asserted that the changes in fair value recognised in an entity's statement of financial performance for contracts referencing nature-dependent electricity do not provide useful information. Similar assertions have been made in the past about other derivative contracts. Messrs Mackenzie and Uhl disagree with providing an exception from IFRS 9 for situations in which an entity knows it will settle net portions of the contract. However, if the IASB has concluded that the current accounting for particular contracts is not decision-useful, Messrs Mackenzie and Uhl suggest the way to address this deficiency should be through presentation.

DO10 Mr Mackenzie further disagrees with the amendments made to hedge accounting. In his opinion, cash flow hedge accounting in accordance with IFRS 9 works as intended, and this assertion will soon be subject to a post-implementation review. Over the years, stakeholders have made several requests for the IASB to address the designation of a variable nominal amount in a cash flow hedging relationship, but the IASB has chosen not to pursue such a project. Even with the move from IAS 39 to IFRS 9, the IASB continued to disallow such designation of variable nominal amounts in a hedging relationship, demonstrating that it did not consider such a change to be warranted. The amendments to IFRS 9 would be applicable to only a small subset of contracts referencing nature-dependent electricity and would introduce a new variant of cash flow hedging for only one specific type of contract, which, in his opinion, cannot be justified.

DO11 Mr Mackenzie does not think that there is any principle-based reason why an entity should be allowed to designate a variable nominal amount for these contracts, but be prevented from doing so for other contracts with similar economic characteristics. In his opinion, contracts referencing nature-dependent electricity lack any unique features that would justify such a drastic amendment. Mr Mackenzie argues that if the IASB considered such a drastic change to be necessary, it should have pursued more comprehensive amendments to IFRS 9 that would have affected all cash flow hedging relationships and not just those that involve contracts referencing nature-dependent electricity.

Amendments to the Basis for Conclusions on IFRS 7 *Financial Instruments: Disclosures*

Paragraphs BC39I–BC39S and their subheadings are added. For ease of reading, these paragraphs and subheadings have not been underlined. Other new text is underlined.

Disclosures about the significance of financial instruments for financial position and performance (paragraphs 7–30C, B4 and B5)

...

Other disclosures—Contracts referencing nature-dependent electricity (paragraphs 5B–5D and 30A–30C)

BC39I In December 2024, the Board issued *Contracts Referencing Nature-dependent Electricity*, which amended IFRS 9 and IFRS 7. The amendments to IFRS 9 enable entities to include information in their financial statements that more faithfully represents contracts referencing nature-dependent electricity (as described in paragraph 2.3A of IFRS 9). Stakeholders said that the accounting treatment of these contracts after applying the amendments to IFRS 9 warrants greater transparency. These contracts, whether settled with the delivery of electricity or settled net in cash or another financial instrument, expose the entity to variability in the underlying amount of electricity because the source of electricity generation depends on uncontrollable natural conditions. The Board concluded that some additional disclosures would be relevant for all contracts that have these characteristics.

Scope

BC39J The Board noted that other IFRS Accounting Standards include disclosure requirements that might apply to contracts referencing nature-dependent electricity that have the characteristics described in paragraph 2.3A of IFRS 9. The Board concluded that other IFRS Accounting Standards include enough disclosure requirements for:

(a) contracts for the sale and delivery of nature-dependent electricity accounted for as executory contracts. IFRS 15 *Revenue from Contracts with Customers* typically applies to such contracts and requires an entity to make disclosures that enable users of its financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from its contracts with customers.

(b) contracts referencing nature-dependent electricity accounted for at fair value in accordance with IFRS 9. IFRS 7 and IFRS 13 *Fair Value Measurement* include disclosure requirements for contracts:

  (i) accounted for as derivatives in accordance with IFRS 9; and

  (ii) designated as measured at fair value through profit or loss in accordance with paragraph 2.5 of IFRS 9.

BC39K The Board did not intend that an entity would be required to duplicate information that it already provides. It decided to develop new disclosure requirements for contracts for which the amendments change the accounting. The Board concluded that the additional disclosure requirements apply to:

(a) contracts to take delivery of the nature-dependent electricity accounted for as executory contracts in accordance with paragraphs B2.7–B2.8 of IFRS 9; and

(b) contracts referencing nature-dependent electricity accounted for at fair value through profit or loss designated in a hedging relationship in accordance with the hedge accounting amendments.

BC39L In light of the scope of the disclosures as set out in paragraph BC39K, the Board decided to include in paragraph 30C a requirement that if an entity discloses information about its contracts referencing nature-dependent electricity in more than one note in its financial statements, the entity includes cross-references to those notes in the note in which the entity discloses the information required by paragraph 30A. This requirement enables users of financial statements (investors) to find information about contracts referencing nature-dependent electricity in a single note in the financial statements. The Board also decided that the need for this requirement arises primarily for contracts that an entity entered into with regards to its electricity purchases and not with regards to its electricity sales.

Specific disclosure objectives

BC39M While developing the amendments, the Board held discussions with investors and performed a desktop review of publicly available financial statements. The Board's outreach and research identified that investors need to understand the effects that contracts referencing nature-dependent electricity have on:

(a) an entity's financial performance in the reporting period; and

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

BC39N Based on this information the Board developed the specific disclosure objectives in paragraph 30A of IFRS 7 applicable to contracts referencing nature-dependent electricity that are accounted for as executory contracts after applying the requirements in paragraphs B2.7–B2.8 of IFRS 9. The Board added:

(a) no overall disclosure objective because paragraphs 7 and 31 of IFRS 7 already include such objectives.

(b) the requirement in paragraph 30B of IFRS 7 that an entity disaggregates, for contracts referencing nature-dependent electricity that the entity designated in a hedging relationship in accordance with paragraph 6.10.1 of IFRS 9, the information it discloses in accordance with paragraph 23A of IFRS 7. Paragraph 23A of IFRS 7 was designed to enable investors to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity. The Board decided that requiring disaggregation of the information for contracts referencing nature-dependent electricity and the other disclosure requirements of IFRS 7 and IFRS 13 satisfy the disclosure objectives in paragraph BC39M.

(c) no other aggregation and disaggregation requirements because the disclosures are subject to the aggregation and disaggregation requirements in paragraph B3 of IFRS 7. The Board does not intend for an entity to disclose information for each contract separately.

Items of information

BC39O Investors listed items of information that would enable them to understand the effect of contracts referencing nature-dependent electricity that are accounted for as executory contracts on an entity's financial statements, such as:

(a) the type of pricing (fixed versus variable);

(b) the price agreed on in the contract (and the prevailing market price as at the reporting date);

(c) the proportion of such contracts compared to the entity's total sales or purchases of the same non-financial item;

(d) the effect of the contract on the entity's revenue and expenses during the reporting period (for example, what the electricity costs for the period would have been without these contracts); and

(e) an indication of the fair value of the contract at the reporting date.

BC39P However, many stakeholders expressed concerns about entities disclosing some of the items of information listed in paragraph BC39O. Stakeholders were concerned that the amendments would require an entity to disclose:

(a) commercially sensitive information (for example, information about the fixed price agreed in the contract).

(b) 'pro-forma' or 'hypothetical' information about what the entity's income or expenses would have been without these contracts. Stakeholders said that such information might be complex to prepare and disclose.

(c) information about the fair value of the contracts. Stakeholders questioned whether the costs would outweigh the benefits, because estimating the fair value for these contracts is complex and subject to high levels of measurement uncertainty.

(d) information that is disproportionate to that required for other contracts, events or transactions. Stakeholders suggested the Board balance the need to improve transparency about these contracts with the narrow scope of this project. To achieve this balance, these stakeholders suggested that the disclosures should focus on the unique risks arising from contracts referencing nature-dependent electricity that are accounted for as executory contracts after applying the amendments.

(e) information that is more relevant to sustainability-related disclosures.

BC39Q After considering the feedback described in paragraphs BC39O–BC39P, the Board decided to require that an entity disclose the items of information described in paragraph 30A of IFRS 7 for contracts referencing nature-dependent electricity accounted for as executory contracts after applying the requirements in paragraphs B2.7–B2.8 of IFRS 9. The Board came to this decision because:

(a) paragraph 30A(a) requires an entity to disclose information about contractual features that expose the entity to the risks arising from these contracts. The Board noted that information about these contractual features is not, in itself, enough for investors to understand the effect of these contracts on an entity's future cash flows. Information about contractual features should be read together with the information required by paragraph 30A(b)–(c) of IFRS 7.

(b) paragraph 30A(b)(i) requires an entity to disclose information about its estimated future cash flows that arise from these typically long-term contractual commitments. This information reflects the entity's unrecognised contractual commitments that arise from its efforts to secure access to the specific type of electricity. Cash flow information:

(i) includes information about the pricing of the contracts without requiring the entity to disclose detailed information about the pricing.

(ii) involves lower additional costs to prepare compared to fair value information because the cash flow estimates are specific to the entity. An entity need not base these estimates on market-specific information required by IFRS 13.

(c) paragraph 30A(b)(ii) requires an entity to disclose information about how it assesses whether a contract might become onerous, including the assumptions the entity uses in the assessment. Onerous contracts are defined in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This information enables investors to understand the risk of these contracts becoming onerous in the foreseeable future. The Board decided not to add additional requirements about the assumptions an entity is required to disclose. Paragraph 125 of IAS 1 *Presentation of Financial Statements* (or paragraph 31A of IAS 8 *Basis of Preparation of Financial Statements* once IFRS 18 *Presentation and Disclosure in Financial Statements* is applied) includes adequate requirements.

(d) paragraph 30A(c) requires an entity to disclose information about effects on the entity's financial performance for the reporting period of purchases and sales of electricity arising from the contracts. To link the disclosures to the net-purchaser assessment in paragraphs B2.7–B2.8 of IFRS 9, the Board decided that an entity bases the disclosure on the information that is applicable to the reporting period that the entity used to assess whether it was a net purchaser.

Costs and benefits

BC39R In light of the analysis set out in paragraph BC39Q, the Board expects that the benefits of the disclosed information will outweigh the costs of applying the requirements. The Board expects that the information an entity is required to disclose will be readily available. The Board acknowledged that an entity would incur costs to prepare the information about its contracts referencing nature-dependent electricity. The more contracts an entity has, the costlier the disclosures might be. However, the Board concluded that this cost is acceptable in light of the benefits to investors of the additional information about an entity's long-term contractual commitments arising from these contracts.

Transition requirements

BC39S The Board decided that an entity applying these amendments for the first time need not disclose the quantitative information required by paragraph 28(f) of IAS 8 (paragraph 178(f) of IFRS 19 *Subsidiaries without Public Accountability: Disclosures*), for the current period and for each prior period presented because the costs of doing so would outweigh the benefits.

Amendments to the Bases for Conclusions on Other IFRS Accounting Standards

Amendments to the Basis for Conclusions on IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

Paragraph BC114 and its subheading are added. For ease of reading, this paragraph and its subheading have not been underlined.

Maintaining IFRS 19

...

Contracts referencing nature-dependent electricity (paragraphs 64A–64C)

BC114 In December 2024, the IASB issued *Contracts Referencing Nature-dependent Electricity* that amends IFRS 9 *Financial Instruments* and IFRS 7. The IASB decided not to reduce the disclosures for eligible subsidiaries because:

(a) the proposed disclosure requirements would provide information about obligations, commitments or contingencies and information on measurement uncertainties.

(b) the narrow scope of the contracts that meet the criteria in paragraph 5B of IFRS 7 reduces the costs for eligible subsidiaries of providing the information. Therefore, the IASB expects that the benefits of the proposed disclosure requirements would outweigh the costs.