Grupo Latinoamericano de Emisores de Normas de Información Financiera

Group of Latin American Accounting Standard Setters

Brasilia, Brazil, August 7, 2024

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RE: IFRS Accounting Standard Exposure Draft: "Contracts for Renewable Electricity - Proposed amendments to IFRS 9 and IFRS 7"

Dear IASB Board Members,

The "Group of Latin American Accounting Standard Setters" – GLASS[1] welcomes the opportunity to comment on the Exposure Draft "Contracts for Renewable Electricity - Proposed amendments to IFRS 9 and IFRS 7" (the ED).

This response summarizes the points of view of the members of the different countries of GLASS, which has been prepared in accordance with the following due process.

Due process

The discussions regarding the ED were held within a specified Technical Working Group (TWG) created in June 2024. All country-members had the opportunity to appoint at least one member to participate in this TWG. Each standard setter represented in the TWG has undertaken different tasks in their respective countries (e.g., surveys, internal working groups). All results were summarized, and this summary was the platform for the TWG discussion process.

The TWG discussed the different points of view included in the summary during conference calls. In those calls the TWG developed a final document based on the agreed-upon responses and the technical points of view of its members. Finally, the TWG document was submitted to and approved by the GLASS Board.

The response is structured as answers to the questions included in the ED submitted for consultation and includes comments on each of the topics covered in the referenced questions.

Overall comments

GLASS agrees with the proposed amendments for the case in question. However, our main objection to scope of the proposal is that it establishes standards for a very specific type of electricity contract. Our position has always been that the guidance in standards be applicable to as many situations as possible, without the need to deal with very specific cases.

From the countries that have participated, comments were received indicating that, for example, one of the most used contracts are "take-or-pay" contracts for which the proposed modification is not applicable in its entirety. "Take-or-pay" contracts are those where the energy buyer commits

[1] The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts, Requests for Information and Discussion Papers issued by the IASB, and to generate proposals originated from the regional initiatives. Therefore, GLASS aims to have a unified regional opinion before the IASB. GLASS is constituted by: Argentina (Board), Bolivia, Brazil (Chairman), Chile, Colombia (Vice Chairman), Costa Rica (Board), Dominican Republic, Ecuador, Guatemala, Honduras, Mexico (Board), Panama, Paraguay, Peru (Board), Uruguay (Board), and Venezuela (Board).

to purchase all the energy offered by the seller, usually at a fixed price agreed to in the contract, and not in all cases is it possible to sell the surplus.

Additionally, the different degrees of maturity of the markets and the particularities on which the contracts are developed, in both cases referring to renewable energy, in each jurisdiction of origin could imply that the modifications may only be temporarily applicable.

GLASS believes that it may not be convenient to make modifications to IFRS standards with the objective of solving specific problems and perceives an important risk that by analogy entities begin to apply these solutions to situations other than those intended by the standard, which could lead to unintended conclusions or consequences.

Specific comments

Attached please find our specific responses to the questions presented in the ED.

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,

José Luiz Ribeiro de Carvalho

Chairman of the Group of Latin American Accounting Standard Setters (GLASS)

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de Emisores de Normas
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GLASS Comment Letter on the Exposure Draft
"Contracts for Renewable Electricity - Proposed amendments to IFRS 9 and IFRS 7"

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?

Our response:

GLASS agrees with the proposed amendments for the case in question which properly address the concerns of interested parties for the specific case.

However, we do not agree with the way in which the modification is incorporated into the standard, since it deals with the treatment of a very specific situation within a general standard, and if there are modifications to contracts that generate new particular situations, they may require continuous modifications of the standard. We believe that when applying a general rule to specific situations, they should be treated as an interpretation, application guidance or an agenda decision, following the due process for its issuance.

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?

Our response:

GLASS agrees with the factors included in the proposed amendments for the specific case.

However, there is no certainty that other current or future similar contracts are not within the scope of the modifications, which is part of the risk when establishing specific guidance for a very particular situation. In the same sense, as the modification assumes that all of the volume risk rests with the buyer, this modification would not apply to contracts where the volume risk is assumed by the seller or where government agencies are involved and limit the sale of surpluses.

Likewise, it is not perceived that the effect of making the concept of "own-use" more flexible for particular situations leads to an improvement of financial information, since reporting the effect of changes in the market values of contracts may be omitted.

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?

Our response:

GLASS agrees that a variable volume of forecast electricity transactions can be designated as a hedged item.

However, we do not agree to specify which is the hedged item (price or volume) because this must be defined by the entity itself according to its hedging strategy. The proposed modification assumes that the price is fixed and the volume is variable, which leads to the hedged item being the latter, which may not be consistent with the risk that the entity intends to mitigate via the hedging instrument. One of the main advantages that was promoted with the modification of IFRS 9 in 2014 was to align the coverage with the decisions of management; the current proposed modification could contradict the decisions of management.

Additionally, we recommend using more precise terminology, replacing references to *volume* with references to *quantity*. This is intended to consider technical details within the standard, since *volume* is not an identifiable unit with energy, and therefore we suggest using *amount* and *supply* risk instead of *volume* risk. *Volume* considers the risk of not being able to comply with the amount committed, and *supply* considers the risk of not being able to supply energy.

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?

Our response:

GLASS agrees with the proposed modifications for the specific case, although we suggest specifying that the information should be presented in a summary note with the general conditions of the contracts and the estimated information for different periods of time (for example, one year, 5 years and then the remaining period). Likewise, the information should be aggregated to avoid the disclosure of the confidential and strategic information of an entity.

Another aspect to keep in mind is that these disclosures do not include contracts linked to other energy sources (for example, biomass) that may also be relevant to the users of the financial statements.

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?

Our response:

GLASS agrees with the proposed modifications for the specific case in order to maintain consistency of the information to be disclosed.

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?

Our response:

GLASS agrees with the proposed modifications for the specific case.

We agree that the modifications be retroactive when they refer to contracts that currently exist and the related information is available.

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?

Our response:

GLASS does not agree with an effective date of annual reporting periods beginning on or after 1 January 2025.

As we believe that in many cases it might be difficult and not accurate to obtain the necessary information, evaluating the contracts, consistency with management strategy and valuation assumptions and data considering the proposed modifications to hedge accounting. Therefore, we suggest that the application of the modifications in the ED have an effective date of January 1, 2026, allowing its early application whereas the information is promptly available.

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