IASB ISSUES *CONTRACTS REFERENCING NATURE-DEPENDENT ELECTRICITY (AMENDMENTS TO IFRS 9 AND IFRS 7)*

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Background

In December 2024, the International Accounting Standards Board (IASB) issued Contracts Referencing *Nature-dependent Electricity* (the Amendments), which amended IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*.

The Amendments arose from a request submitted to the IFRS Interpretations Committee (the Committee) asking how an entity would apply the own-use exception requirements specified in IFRS 9.2.4 to contracts to buy and take delivery of electricity generated from nature-dependent sources that are variable in amount and / or timing as a result. Stakeholders expressed a need for a timely solution to this issue as the matter is widespread and the use of such contracts is expected to increase due to an increased demand for renewable electricity. Therefore, the Committee referred the matter to the IASB to consider a narrow-scope standard setting project.

STATUS

Final

EFFECTIVE DATE

1 January 2026

ACCOUNTING IMPACT

As a result of the Amendments, entities will be able to:

- apply the own-use exception to certain contracts referencing nature-dependent electricity (CRNE); and
- designate a variable nominal volume of electricity as a hedged item, facilitating application of hedge accounting to CRNEs.

The IASB issued an exposure draft in May 2024 and after analysing the feedback to the exposure draft, the Amendments were issued in December 2024.

The Amendments primarily address two areas of IFRS 9 for contracts referencing nature-dependent electricity (CRNEs):

- The own-use exception
- Hedge accounting.

The Amendments are effective for annual reporting periods beginning on or after 1 January 2026, with earlier application permitted.

The Amendments may be accessed on the Power Purchase Agreements project page on the IASB's website.

ENTITIES AFFECTED BY THE PROPOSED REQUIREMENTS

Entities entering into CRNE may benefit from the Amendments as a greater number of such contracts will be eligible for the own-use exception and hedge accounting under IFRS 9. Such entities will be able to treat CRNEs as executory contracts if they meet the specified requirements for the own-use exception. Prior to the Amendments, it was challenging to apply hedge accounting to CRNEs due to the characteristics of CRNEs and the electricity market. After the Amendments are adopted, entities will be able to designate a variable nominal volume of electricity purchased as a hedged item, which will facilitate application of hedge accounting to CRNEs.

WHAT ARE CONTRACTS REFERENCING NATURE-DEPENDENT ELECTRICITY

CRNEs are contracts to purchase electricity from nature-dependent sources such as wind energy or solar energy.

The Amendments define contracts referencing nature-dependent electricity as:

> *Contracts that expose an entity to variability in the underlying amount of electricity because the source of electricity generation depends on uncontrollable natural conditions (for example, the weather).*

These contracts include both contracts to buy or sell nature-dependent electricity and financial instruments that reference such electricity.

Why are separate considerations required for the accounting of CRNEs?

The challenges in accounting for CRNEs arise from the nature of the renewable energy market and the nature of these contracts.

Typical characteristics of renewable energy markets include:

- High levels of regulation.
- The supply of electricity is unpredictable as the source of production is nature-dependent. For example, a wind farm operator cannot estimate or plan precisely how much electricity from wind would be generated over the next one year or even the next day. This can only be estimated with a certain degree of probability based on past trends, wind generation in other similar locations, etc.
- Electricity that is not consumed immediately typically cannot be stored for future consumption, unlike other commodities such as iron, copper, etc.
- Entities are required to consume the electricity delivered within a short time interval, typically 15 to 30 minutes, with failure resulting in punitive penalties from the grid operator.
- Due to this requirement to consume electricity immediately, there are unavoidable sales of electricity at market price if delivered electricity exceeds the demand at the time of delivery.

CRNEs are typically entered for a long duration, such as 25 years. The following are some of the most commonly encountered types of CRNEs or power-purchase agreements (PPA).

TYPE OF PPA	CHARACTERISTICS
Pay-as-produced PPA	These are the most commonly seen PPAs in practice. The purchaser is required to acquire a fixed share of the energy produced by the seller. For example, the purchase contracts to purchase 70% of the output of a windfarm. *In these contracts, **the volume risk is entirely transferred to the purchaser**, that is the purchaser is required to purchase the agreed percentage of electricity delivered even if it exceeds the purchaser's demand for electricity at the time of purchase.*

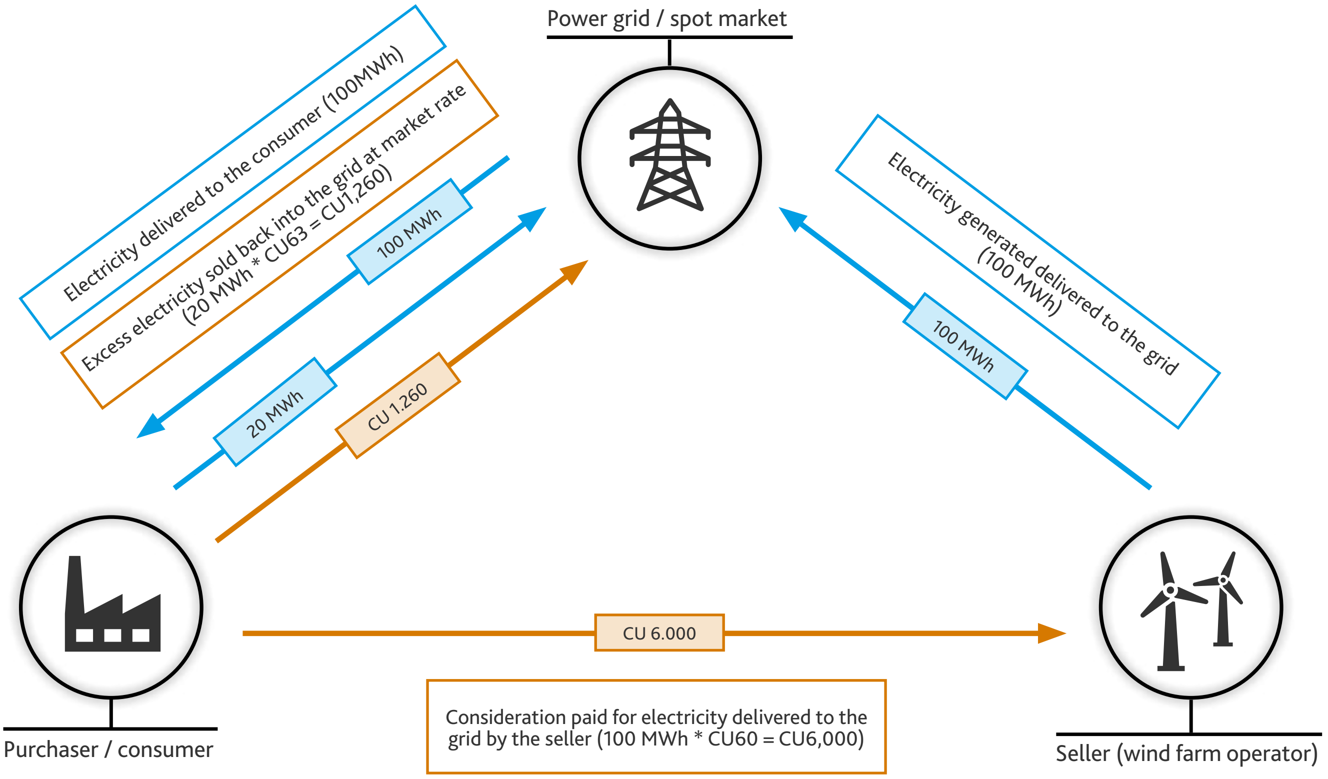
TYPE OF PPA	CHARACTERISTICS
Baseload PPA	The purchaser purchases a fixed amount of electricity, instead of a specified proportion of the electricity generated.
Pay-as-consumed PPA	The purchaser pays for the electricity consumed, rather than for a specified proportion of the electricity generated.
Shaped PPA	The electricity to be purchased is determined based on the expected electricity requirements by the purchaser. This determination is typically more granular than a baseload PPA. For example, the purchaser's requirements may be determined on a weekly or daily basis.

The following diagram depicts a typical pay-as-produced PPA arrangement:

% of electricity generated by the wind farm to be delivered to the purchaser under the PPA: 100%

On day X at 3.00 pm:

- Electricity generated: 100 MWh
- Purchaser's demand: 80 MWh
- Fixed rate per MWh under the PPA: CU60
- Spot rate per MWh: CU63.


Power grid / spot market
Electricity delivered to the consumer (100MWh)
Excess electricity sold back into the grid at market rate (20 MWh * CU63 = CU1,260)
100 MWh
20 MWh
CU 1.260
Electricity generated delivered to the grid (100 MWh)
100 MWh
CU 6.000
Purchaser / consumer
Consideration paid for electricity delivered to the grid by the seller (100 MWh * CU60 = CU6,000)
Seller (wind farm operator)

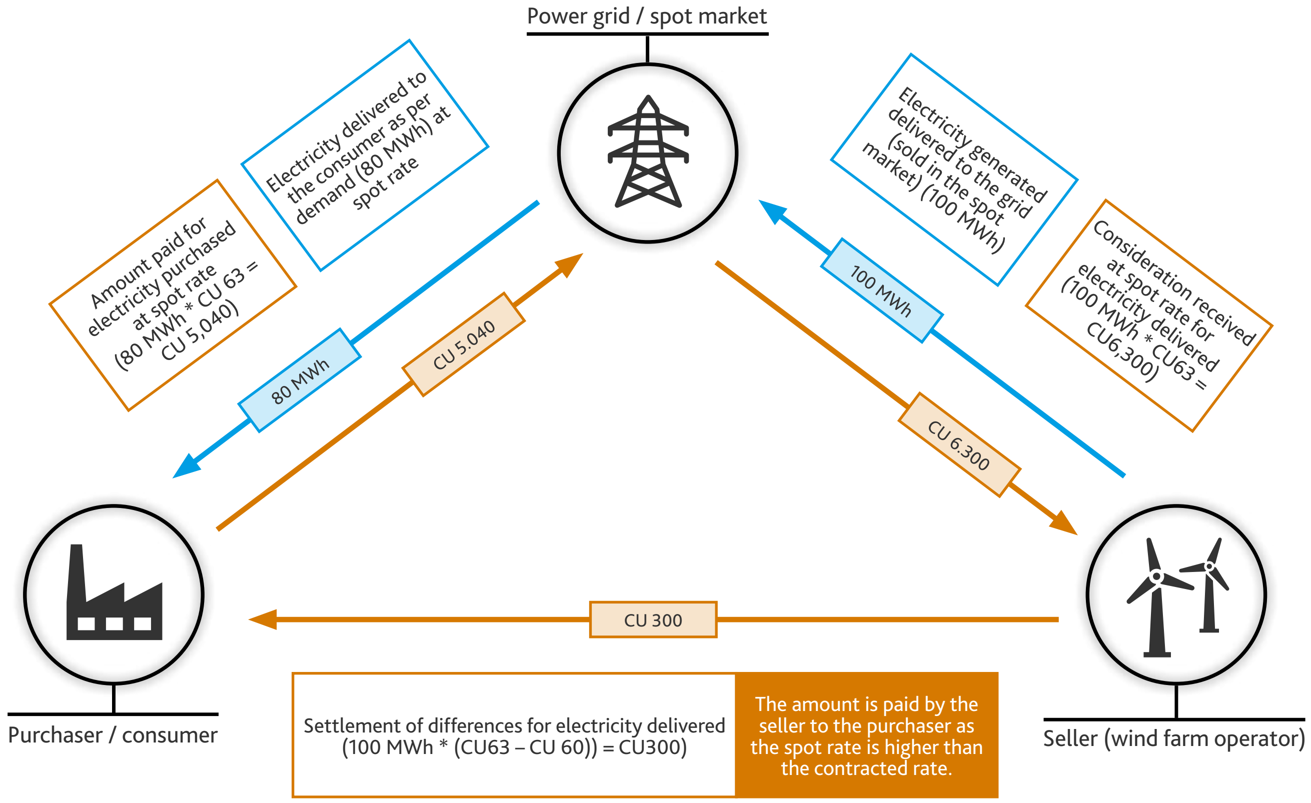
In the example above, at a given point in time, the wind farm delivers 100 MWh of electricity to the grid, which is then delivered to the purchaser. This delivery is typically done through an allocation of electricity from the grid of the purchaser’s share of electricity. The purchaser’s demand at this point in only 80 MWh. Therefore, the excess electricity of 20 MWh is sold back to the grid.

The purchaser pays the wind farm operator for its share of electricity i.e. 100 MWh at the fixed rate agreed in the PPA, which is CU60. The purchaser receives the spot price from the market for the sale of excess electricity of 20 MWh. The spot rate at this time was CU63. Therefore, the purchaser receives CU1,260 from the market.

The above example is an example of a physical PPA. PPAs may also be virtual (VPPAs).

PHYSICAL PPA	VIRTUAL PPA
▶ Physical delivery is taken for the contracted volume of electricity. ▶ Excess electricity (quantity delivered exceeding the demand at the time of delivery) is sold back in the market at spot rate. ▶ The seller/ electricity generator is paid for the electricity delivered under the PPA at the contracted rate.	▶ Physical delivery is not taken by the purchaser for the contracted share of electricity. ▶ VPPA is a contract for differences between the contracted rate under the PPA and the spot rate. ▶ Difference in contracted rate and spot rate is settled between the counterparties of the VPPA. ▶ Purchaser/ consumer purchases required quantity of electricity from the market at spot rate.

The following diagram depicts a VPPA arrangement for a similar fact pattern as in the above example:


Power grid / spot market
Electricity delivered to the consumer as per demand (80 MWh) at spot rate
Amount paid for electricity purchased at spot rate (80 MWh * CU 63 = CU 5,040)
80 MWh
CU 5,040
Electricity generated delivered to the grid (sold in the spot market) (100 MWh)
Consideration received at spot rate for electricity delivered (100 MWh * CU63 = CU6,300)
100 MWh
CU 6,300
CU 300
Purchaser / consumer
Seller (wind farm operator)
Settlement of differences for electricity delivered (100 MWh * (CU63 – CU 60)) = CU300)
The amount is paid by the seller to the purchaser as the spot rate is higher than the contracted rate.

Economically, a physical PPA and a virtual PPA give the same result, as can be seen below:

PHYSICAL PPA		VIRTUAL PPA	
Net consideration received by the seller:		Net consideration received by the seller:	
From the purchaser (100 MWh * CU60):	CU 6,000	Received from the spot market (100 MWh * CU63):	CU 6,300
		Less: Payment to the purchaser under the VPPA (100 MWh * (CU63 - CU60)):	CU 300
		Net receipt:	CU 6,000
Net consideration received by the purchaser:		Net consideration received by the purchaser:	
Paid to the seller (100 MWh * CU 60):	CU 6,000	Paid in the spot market (80 MWh * CU 63):	CU 5,040
Less: Received in the spot market (20 MWh * CU63):	CU 1,260	Less: Received from the seller under the VPPA (100 MWh * (CU63 - CU60):	CU 300
Net payment:	CU 4,740	Net payment:	CU 4,740

AMENDMENTS RELATED TO 'OWN-USE' EXCEPTION

IFRS 9.2.4 provides the own-use exception as below (***emphasis*** added):

> *This Standard shall be applied to those contracts to* ***buy or sell a non financial item*** *that can be* ***settled net in cash*** *or* ***another financial instrument****, or* ***by exchanging financial instruments****, as if the contracts were financial instruments, with the* ***exception*** *of contracts that were entered into and continue to be held for the purpose of the* ***receipt or delivery*** *of a* ***non-financial item*** *in accordance with* ***the entity's expected purchase, sale or usage requirements****.*

Entities often enter into contracts to buy or sell non-financial items, for example oil, where the contract can be settled net in cash or another financial instrument, or by exchanging financial instruments.

Such contracts may be of two types.

- The first is that the contract is not for receipt/ delivery in accordance with the entity's expected purchase, sale/ usage. In this case, IFRS 9 is applied to the contract as if the contract were a financial instrument. This is because in substance the contract is similar to a financial derivative. When IFRS 9 is applied to such contracts, the contracts are essentially accounted as derivatives, at fair value through profit or loss.
- The second possibility is that the contract is for receipt or delivery of the non financial item in accordance with the entity's expected purchase, sale or usage requirements (e.g. for oil to be consumed in the production of goods). In this case, the own use exception in accordance with IFRS 9.2.4 applies and the contract is not within the scope of IFRS 9. Such contract is accounted as an executory contract, meaning it is not recognised in the financial statements until one party has performed (e.g. the recognition of a trade payable when the oil is delivered to the customer).

What are the challenges in applying the own-use requirements to CRNEs prior to the amendments?

IFRS 9.2.6 provides examples of ways in which contracts to buy or sell non-financial items may be settled net in cash or another financial instrument or by exchanging financial instruments. These include:

a. when the terms of the contract permit either party to settle it net;

b. when the ability to settle net is not explicit in the terms of the contract, but the entity has a practice of settling similar contracts net;

c. when, for similar contracts, the entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin;

d. when the non-financial item that is the subject of the contract is readily convertible to cash.

IFRS 9.2.6 further provides that a contract to which either (b) or (c) above apply is not entered into for the purpose of the receipt or delivery of the non financial item in accordance with the entity's expected purchase, sale or usage requirements and, accordingly, is within the scope of IFRS 9. Said another way, the own use exception cannot apply.

In case of CRNEs, due to the nature of electricity (i.e. it generally cannot be stored) and the electricity market, the purchaser may be required to make unavoidable sales of unused electricity during some delivery intervals if the electricity delivered exceeds the purchaser's demand at that point. For example, receipt of electricity during weekends and holidays when usage requirements are lower.

Therefore, given these unavoidable sales, a question arises as to whether such contracts can be said to be entered into in accordance with the entity's expected purchase or usage requirements.

What do the amendments require?

The Amendments add paragraphs B2.7-B2.8 to IFRS 9, which describe the factors that an entity is required to consider in assessing whether CRNEs are entered into and continue to be held for the purpose of the receipt of electricity in accordance with the entity's expected usage requirements.

The Amendments provide the following:

- Some CRNEs require an entity to buy and take delivery of the electricity when it is generated. Therefore, an entity may be exposed to the risk of buying electricity during a delivery interval in which the entity cannot use the electricity.
- An entity may have no practical ability to avoid making sales of unused electricity because of the design and operation of the electricity market. When applying the requirements of IFRS 9.2.4, such sales are not necessarily inconsistent with the contract being held in accordance with the entity's expected usage requirements.
- Requirement for the entity to be considered a net purchaser of electricity:
  - An entity is considered to have entered into and continued to hold a CRNE in accordance with its expected electricity usage requirements if the entity has been, and expects to be, a net purchaser of electricity for the contract period.
  - An entity is a net purchaser of electricity if it buys sufficient electricity to offset the sales of any unused electricity in the same market in which it sold the electricity.
  - In determining whether an entity is a net purchaser of electricity, the entity shall consider reasonable and supportable information (that is available without undue cost or effort) about its past, current and expected future electricity transactions over a reasonable amount of time.
  - 'A reasonable amount of time' is determined by considering the variability in the amount of electricity expected to be generated due to the seasonal cycle of the natural conditions and the variability in the entity's demand for electricity due to its operating cycle. 'A reasonable amount of time' shall not exceed 12 months.

    In the Basis for Conclusions, the IASB has noted that it does 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 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.

Points to note:

- Effect of risk mitigation features such as caps and floors in the contract:

  Some contracts may include risk mitigation features such as caps and floors. In the Basis for Conclusions, the IASB has noted that the requirements in IFRS 9.B2.7 for applying the own-use exception is for the contract that exposes 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. Therefore, a cap or a floor by itself does not prohibit the entity from applying the Amendments for own-use exception to CRNEs.

- Availability of alternatives to selling of electricity:

  If the market design offers an entity alternatives to selling its unused electricity (for example, making electricity storage facilities available) or if the entity undertakes 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, the Amendments do not apply to the entity.

- Assessment of the net purchaser requirement in the same market:

  IFRS 9.2.4 requires an entity to consider the *entity's* expected usage requirements. However, the Amendments require the entity to make the net purchaser assessment at the level of a particular market. That is, 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.

  For example, an entity operates two factories – Factory A and Factory B in jurisdictions X and Y respectively. The entity enters into a physical PPA to purchase the entire output of a solar farm in jurisdiction X, to be used for production in Factory A. Any excess electricity delivered under the PPA is required to be sold into the electricity grid in jurisdiction X. The Entity is required to make assessment of whether it is a net purchaser of electricity under the Amendments for jurisdiction X. It cannot consider its electricity purchases in jurisdiction Y for the net purchaser assessment.

  Conversely, assume that both Factories A and B operate in jurisdiction X. In this case, the net purchaser assessment will be made considering the expected usage requirements of both Factories A and B.

BDO comment – Types of CRNEs to which the Amendments apply

There are different types of CRNEs or PPAs such as pay-as-produced, pay-as-consumed, baseload, etc.

The Amendments do not specify the types of CRNEs covered. The requirement for the applicability of the Amendments is for an entity to buy and take delivery of the electricity as it is produced, exposing the entity to the risk of having to purchase electricity during a delivery interval in which the entity cannot use the electricity.

The Amendments might apply to any type of CRNE and, not only to a pay-as-produced contract, provided the contract met the requirements in BC2.7 and BC2.8.

For example, an Entity enters into a baseload PPA with a windfarm operator to purchase 1,000 MWh of electricity every day. The Entity's electricity requirement on weekdays is 1,500 MWh per day, requiring it to purchase 500 MWh from the electricity market. The Entity does not operate on weekends. Its electricity requirement on weekends is 200 MWh, requiring it to sell the excess electricity received in the market on weekends. Thus, the Entity purchases 2,500 MWh of electricity (500 MWh * 5 weekdays) every week from the electricity market and sells 1,600 MWh of electricity (800 MWh * 2 days) into the electricity market every week. As the Entity's purchases of electricity from the market exceed its sales, the Entity is a net purchaser of electricity. Therefore, the Amendments are applicable to the Entity.

If the Entity's electricity requirement on weekdays were 1,100 MWh per day, it would be required to purchase 500 MWh of electricity (100 MWh * 5 days) from the market every week. If the Entity's electricity requirement on weekends were 200 MWh per day, it would be required to sell 1,600 (800 MWh * 2 days) MWh every week. The Entity then would not be a net purchaser of electricity as its sales of electricity into the electricity market exceed the purchases and the Amendments would not apply to the Entity.

What about VPPAs?

The Amendments related to the own-use exception apply to physical PPAs only and not to VPPAs, as delivery of electricity is not taken under VPPAs.

The Amendments address the accounting for VPPAs in hedge accounting requirements.

What about contracts to sell electricity?

CRNEs include both contracts to buy or sell nature-dependent electricity and financial instruments that reference such electricity. However, the amendments related to the own-use exception apply to CRNEs that are entered into and continue to be held for the purpose of the receipt of electricity in accordance with the entity's expected usage requirements.

The challenges outlined in the sections above mainly relate to purchases of nature-dependent electricity. In case of a typical pay-as produced PPA, the seller does not bear any volume risk as the volume of electricity generated will be covered by the PPA even if the volume may be higher than the purchaser's requirement at the time of delivery.

Contracts for sale of nature-dependent electricity are within the scope of IFRS 15 *Revenue from Contracts with Customers* and are typically accounted as executory contracts.

AMENDMENTS RELATED TO HEDGE ACCOUNTING

What are the challenges in applying the hedge accounting requirements to CRNEs prior to the amendments?

Forecast transactions: Factors giving rise to cash flow variability		
	Typical non-financial item (e.g. copper)	Nature-dependent electricity
Price uncertainty	✓	✓
Volume uncertainty	✗	✓

In the case of cash flow hedges of forecast transactions, for most of the typical non-financial items, say the purchase of copper, the factor that gives rise to cash flow variability is price uncertainty. There is typically no volume uncertainty as the purchaser is able to estimate its requirement and the supplier is able to guarantee the supply quantity.

But in the case of nature-dependent electricity, the cash flow variability arises from both price and volume uncertainty. In these cases, the purchaser may be able to estimate the required quantity with reasonable certainty, but the supplier cannot guarantee the quantity of electricity generation from the nature-dependent source.

In the case of a hedge of a forecast transaction, IFRS 9 requires the forecast transaction to be highly probable, which is often understood to be a probability of 90% or greater.

The IFRS Interpretations Committee (the Committee), issued an Agenda Decision in March 2019 - *Application of the Highly Probable Requirement when a Specific Derivative is Designated as a Hedging Instrument*. In this agenda decision, the Committee observed that when assessing whether a forecasted transaction is highly probable, an entity considers uncertainty over both the timing and magnitude of the forecast transaction. In the case of nature-dependent electricity, the timing and magnitude of electricity to be delivered are difficult to estimate with sufficient specificity.

Prior to the Amendments, the designation of a hedged item under IFRS 9 was a static designation, which was required to be fixed at inception of the hedge accounting relationship. An entity was not permitted to designate a variable nominal volume as the hedged item. A change in the quantity of the hedged item would lead to a discontinuation of the hedge accountnig relationship.

The probability and volume of nature-dependent electricity generated are inversely proportional. The highly probable volume (probability of 90% - P90 volume) is less than the average expected volume (P50 volume) of electricity generation. The volume used to price the contract (i.e. to determine the contracted rate) would typically be P50 volume that results in a fair value of zero at inception. And the volume used for constructing the hypothetical derivative to represent the hedged item would be P90 volume.

If an entity designated the highly probable volume (P90 volume) as the hedged item and the volume settled under the VPPA exceeded the P90 volume, it would result in ineffectiveness for the excess volume settled. But it would not be true ineffectiveness from an economic perspective as the excess quantity still hedges the electricity purchases. True ineffectiveness on account of volume arises only if the quantity settled under the VPPA exceeds the spot purchases of electricity.

Designating the highly probable volume as the hedged item would result in economic offset not being achieved and would not be consistent with the objective of hedge accounting.

What do the amendments require?

Stakeholders noted 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. 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, which is the price risk in this case.

Therefore, the Amendments permit an entity to designate as the hedged item a variable nominal amount of forecast electricity transactions that is aligned with the variable amount of nature-dependent electricity expected to be delivered by the generation facility as referenced in the hedging instrument.

Do the amendments eliminate all sources of ineffectiveness in hedge accounting for CRNEs?

The Amendments address the challenges of ineffectiveness arising from volume uncertainty, but there are other sources of ineffectiveness that may still exist.

The following are examples of potential sources of ineffectiveness in hedge accounting for CRNEs:

- A difference between 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 CRNE.
- Excess of the volume covered by the CRNE over the purchased volume.
- A difference between 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 CRNE is settled.

It should be noted that a non-nil fair value at designation results in ineffectiveness.

Do the amendments related to hedge accounting apply only to VPPAs and not to physical PPAs?

The amendments related to hedge accounting apply to both VPPAs and physical PPAs. A physical PPA may qualify for the own-use exception under the Amendments. But if the physical PPA does not qualify for the own-use exception, it may be designated as a hedging instrument under the amended hedge accounting requirements.

It should be noted that if a physical PPA does not qualify for the own-use exception under the Amendments because it fails the 'net purchaser' requirement, the physical PPA will typically not qualify for hedge accounting either under the Amendments, as the expected volume to be received under the physical PPA is expected to exceed the electricity requirements of the entity.

However, it may also happen that a physical PPA fails to meet the 'net purchaser' requirement because the entity's sales of unused electricity exceed the entity's purchases of electricity in a particular market; but the entity also purchases electricity in other markets. In this case, the physical PPA would fail the own-use exception, but the physical PPA may be designated as a hedging instrument for the purchases of electricity in other markets under the Amendments.

A physical PPA may also fail the own-use exception for reasons other than failing to meet the 'net purchaser' requirement. In such cases, the instrument may be designated as a hedging instrument under the Amendments.

Do the amendments related to hedge accounting also apply to contracts to sell nature-dependent electricity?

Yes. Unlike the amendments related to the own-use exception, the amendments related to hedge accounting apply to both the contracts to purchase and sell nature-dependent electricity. A seller of nature-dependent electricity may designate a CRNEs to sell the electricity as a hedging instrument to hedge future sales of electricity.

The requirement to assess whether the transaction is highly probable:

The Amendments also clarify that if the cash flows of the CRNE designated as the hedging instrument are conditional on the occurrence of a forecast transaction that is designated as the hedged item, this forecast transaction is presumed to be highly probable.

What about Renewable Energy Certificates (RECs)?

Renewable Energy Certificates (RECs) are market-based instruments certifying that the bearer owns electricity produced from a renewable production facility. The Amendments do not address the accounting for RECs. RECs are expected to be dealt with by the IASB's pipeline project on pollutant pricing mechanisms.

Another point to note is that in many jurisdictions, electricity contracts are entered into through intermediaries. Services provided by the intermediaries vary by jurisdiction. An entity should consider the contractual terms with the intermediaries in its assessment of CRNEs.

AMENDMENTS RELATED TO DISCLOSURE REQUIREMENTS

The Amendments have introduced new disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* related to CRNEs.

CRNEs to which the own-use exception is applied

In case of contracts to buy nature-dependent electricity to which the own-use exception applies, an entity is required to disclose information that enables users of its financial statements to understand the effects these contracts have on the amount, timing and uncertainty of its future cash flows and on its financial performance. Specifically, an entity is required to disclose:

a. information about contractual features that expose the entity to:
   i. variability in the underlying amount of electricity; and
   ii. the risk that the entity would be required to buy electricity during a delivery interval in which the entity cannot use the electricity.
b. information about unrecognised commitments arising from such contracts as at the reporting date, including:
   i. the estimated future cash flows from buying electricity under these contracts; and
   ii. qualitative information about how the entity assesses whether a contract might become onerous.
c. qualitative and quantitative information about effects on the entity's financial performance for the reporting period.

CRNEs designated in a hedge accouting relationship

IFRS 7.23A currently requires an entity to disclose by risk category quantitative information to allow users of its financial statements 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 Amendments require an entity to disaggregate, for CRNEs that have been designated as hedging instruments, the information disclosed in accordance with IFRS 7.23A. The CRNEs may be designated as hedging instruments for purchase or sale of electricity.

EFFECTIVE DATE AND TRANSITION REQUIREMENTS

Effective date

The Amendments are applicable for annual reporting periods beginning on or after 1 January 2026, with earlier application permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

Jurisdictional Endorsement Requirements

In many jurisdictions, including the European Union, IFRS Accounting Standards are subject to jurisdictional endorsement requirements; that is, a new Standard or amendment can be applied by entities only after it is endorsed by the relevant jurisdictional authorities. Therefore, entities from jurisdictions subject to jurisdictional endorsement requirements would not be able to early apply the Amendments, until the Amendments are endorsed by the relevant authorities.

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Transition requirements

Transition requirements related to scope and own-use exception:

The amendments related to whether a CRNE is within the scope of IFRS 9 and whether the own-use exception applies are applicable retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* using the facts and circumstances at the date of initial application.

The date of initial application:

The date of initial application is required to be the beginning of a reporting period, which might be a reporting period other than an annual reporting period (e.g. an interim reporting period). If an entity applies the Amendments from the annual reporting period beginning on 1 January 2026, the date of initial application is 1 January 2026.

Restatement of prior period:

Entities are not required to restate the prior periods. Entities are permitted to restate prior periods only if it is possible to do so without the use of hindsight. If the entity does not restate prior periods, it is required to recognise any difference between the previous carrying amount and the carrying amount at the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) at the beginning of that reporting period.

Example of transition requirements – own use exception

Entity A had entered into a physical PPA on 1 January 2023. The physical PPA had a term of 5 years. Prior to the Amendments, Entity A was accounting for the PPA as a derivative measured at fair value through profit or loss applying the requirements of IFRS 9 because Entity A concluded that the contract did not meet the own-use exception.

Entity A applied the Amendments for its annual reporting period beginning on 1 January 2026.

Applying the Amendments, the PPA meets the criteria for the own-use exception for CRNE and would be treated as an executory contract.

As at 31 December 2025, the PPA is recognised in the statement of financial position at CU12,000 (financial liability).

Applying the transition requirements, Entity A does not restate prior periods (i.e. the 31 December 2025 comparative period in the 31 December 2026 financial statements). As an executory contract, the amount to be recognised for the contract in the statement of financial position is nil. Therefore, on 1 January 2026, the derivative of CU12,000 is derecognised with a corresponding credit recorded in opening retained earnings.

If a CRNE is outside the scope of IFRS 9 as a result of the Amendments, an entity is permitted, at the date of initial application, to irrevocably designate this contract at fair value through profit or loss in accordance with IFRS 9.2.5.

Transition requirements related to hedge accounting:

The amendments related to hedge accounting requirements are applicable prospectively to new hedge accounting relationships designated on or after the date of initial application. An entity is permitted, at the date of initial application, to discontinue a hedge accounting relationship in which a CRNE has been designated as the hedging instrument, if the same hedging instrument is designated in a new hedge accounting relationship in accordance with the Amendments.

BDO Comment

When an entity discontinues hedge accounting for a cash flow hedge and the hedged future cash flows are still expected to occur, IFRS 9.6.5.12 requires the amount accumulated in the cash flow hedge reserve to remain in the cash flow hedge reserve until the future cash flows occur. When the future cash flows occur, the amount is reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss.

Therefore, on applying the Amendments, if an entity discontinues a hedge accounting relationship in which a CRNE has been designated as the hedging instrument, the amount accumulated in the cash flow hedge reserve will remain in the cash flow hedge reserve until the future cash flows occur. The new hedge accounting relationship will be accounted applying the requirements of IFRS 9.

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