



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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To
Secretary
Accounting Standards Board
ICAI

To assess the **divergences and potential changes** in the **Exposure Draft of Contracts Referencing Nature-dependent Electricity (renewable electricity contracts)** under **Ind AS 109 and 107**, it's useful to look at:

1. **Current treatment under Ind AS**
2. **International practice (especially IFRS)**
3. **Observed divergences**
4. **Suggestions to tailor the standard for Indian context**

1. Present Treatment under Ind AS (109 & 107)

Under current **Ind AS 109 (Financial Instruments)**:

- Contracts to buy/sell **non-financial items** (like electricity) are generally **outside the scope** of Ind AS 109 if they are **settled by delivery** (own use exemption).
- However, if such contracts are **net-settled** (i.e., settled in cash), or if they contain embedded derivatives, they may fall under Ind AS 109 as **derivative financial instruments**.

Under **Ind AS 107**, entities must disclose the nature and extent of risks from financial instruments.

2. International Practice (IFRS treatment)

- The **IFRS 9** equivalent standard handles electricity contracts similarly, but allows **more flexibility** in applying the '**own use exemption**', especially in **contracts referencing variable or renewable sources** (wind, solar).
- **IFRS allows hedge accounting** for such contracts if entities meet the qualifying criteria, and many power producers globally use **cash flow hedging** to smooth P&L volatility.
- Jurisdictions like the EU have **specific guidance or carve-outs** for contracts that support decarbonization goals.



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3. Key Divergences

Area	Ind AS Treatment	IFRS / International Practice	Divergence
Own Use Exemption	Narrow application – strict on physical delivery	Broader, more judgment-based	May misclassify genuine delivery contracts as derivatives
Embedded Derivatives	Rigid in evaluating pricing variability	Flexible if closely related to host	Over-identification of embedded derivatives
Hedge Accounting	Complex documentation and qualification under Ind AS	Streamlined in some jurisdictions	Low uptake due to high compliance burden
Disclosure	Ind AS 107 less tailored to renewable contracts	Evolving disclosures for climate risk in global standards	Lack of renewable-specific risk disclosure

4. Suggestions for Indian Context

Here's how the Exposure Draft can be improved to suit **India's unique needs**, especially with the push toward renewable energy:

a. Clarify and Broaden 'Own Use' Exemption

- Explicitly allow **contracts for renewable power with delivery obligations** to qualify, even if based on variable nature (e.g., solar/wind conditions).
- Consider intent and historical behavior, not just settlement mechanisms.

b. Simplify Hedge Accounting Rules for PPAs

- Provide **guidance specific to renewable PPAs**, allowing **simplified hedge documentation** for these long-term, strategic contracts.
- Consider a **carve-out or relief** similar to ESG-aligned jurisdictions (e.g., EU, Australia).

c. Embedded Derivatives Evaluation

- Give **practical examples and safe harbors** for evaluating contracts linked to variable renewable output.
- Avoid over-burdening entities with complex fair value models where not materially beneficial.



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d. Enhanced Disclosure Guidance

- Add **renewable-specific disclosures** under Ind AS 107 — such as:
 - Forecast generation and variability
 - Counterparty risk in green PPAs
 - Pricing models based on carbon credit or REC (Renewable Energy Certificates)

e. Align with ESG and Climate Finance Goals

- Integrate renewable electricity contract accounting into India's broader ESG and climate risk disclosure frameworks.
- Support climate-aligned reporting by encouraging comparability with IFRS Sustainability Disclosure Standards (ISSB).

Summary

The Exposure Draft is a good move, but aligning it with **international flexibility**, while considering **India's renewable energy growth and financing ecosystem**, will be key.

Thanks & Regards,

CA. Ramya N
Chairperson