

Comments on Exposure Draft of Contracts Referencing Nature dependent Electricity

Sir,

Please find attached the consolidated observations and suggestions on the Exposure Draft of IndAS 109 and 107.

Here are some suggestions and opinions on the draft:

The exposure draft appears to be well-aligned with the principles and framework of Ind AS 109 (Financial Instruments) and Ind AS 107 (Financial Instruments: Disclosures). It introduces specific amendments to address contracts referencing nature-dependent electricity, which is a niche but increasingly relevant area given the growing focus on renewable energy and sustainability.

However, there are areas where further refinement or clarification could enhance the document's effectiveness and usability:

Suggestions for Refinement or Alteration:

1. Alignment with Ind AS 109 and Ind AS 107

The amendments are generally in line with the scope and principles of Ind AS 109 and Ind AS 107, particularly concerning hedge accounting and disclosures. That said, the following aspects merit further attention:

- **Hedge Accounting (Chapter 6):**
Paragraphs 6.10.1–6.10.2 address hedge accounting for nature-dependent electricity contracts. While these are conceptually consistent with Ind AS 109, additional clarification on key areas such as hedge designation, effectiveness testing and ongoing assessment would enhance understanding.
The proposed changes are a welcome development, as they enable entities to better reflect their risk management strategies through a consistent hedge accounting model. This enhances the reliability and relevance of financial statements.
- **Scope (Chapter 2):**
The introduction of a new category of contracts under Paragraphs 2.3A–2.3B is a significant step. It would be beneficial to clearly delineate how these contracts differ from other financial instruments already covered under Ind AS 109 to avoid interpretation challenges.

2. Disclosure Requirements

The proposed additions to disclosure requirements under Ind AS 107 are expected to improve the transparency of financial reporting and enable users to better assess the impact of natural variability on cash flows. However:

- The requirements under Paragraphs 30A–30C, though comprehensive, could pose practical challenges – especially for smaller entities with limited exposure to such contracts.
- It is recommended that qualitative and quantitative disclosures be streamlined or tiered based on the size and complexity of the entity’s exposure, to reduce unnecessary reporting burden while retaining informational value.

3. Transition Provisions

The transition approach outlined in Paragraphs 7.2.51–7.2.53 is pragmatic, particularly the option for retrospective application without mandatory restatement of prior periods. Nonetheless:

- Entities may encounter difficulties in calculating adjustments to opening retained earnings. Providing illustrative examples or supplementary guidance would be valuable.
- The option to discontinue existing hedge relationships and designate new ones (as per Paragraph 7.2.53) is helpful, but additional clarity is needed on how this aligns with the existing hedge accounting framework of Ind AS 109 to ensure consistent application.

4. Practical Application

To facilitate better adoption and consistent implementation, it is recommended that the amendment document be supplemented with:

- Industry-specific illustrative examples;
- Practical case studies; and
- Application guidance highlighting common scenarios in nature-dependent electricity contracting and hedge accounting.

Conclusion

The exposure draft is well-structured and addresses a critical area of accounting for nature-dependent electricity contracts. It is largely in line with Ind AS 109 and 107, but minor refinements in areas like disclosure requirements, transition provisions, and practical guidance could enhance its usability and ensure smooth implementation. Additionally, providing clarity on alignment with IFRS and simplifying requirements for smaller entities would further strengthen the document.

Thanking You

Chairman

ICAI Thiruvananthapuram Branch (SIRC)