Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Contracts Referencing Nature Dependent Electricity – *Amendments to NZ IFRS 9 and NZ IFRS 7*

Issued May 2025

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This Tier 1 and Tier 2 for-profit amending Standard is based on *Contracts Referencing Nature Dependent Electricity*, issued by the International Accounting Standards Board, which amended IFRS 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments* to introduce requirements addressing contracts referencing nature-dependent electricity.

The amendments clarify the scope and application of hedge accounting and disclosure requirements for such contracts, ensuring entities accurately reflect the variability and risks associated with electricity contracts from nature dependent sources. They also address the 'own use' exception, allowing entities to assess contracts for electricity purchases based on their expected usage requirements, thereby determining whether they fall within the scope of financial instruments standards.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

Legal status of amending Standard

This amending Standard was issued on 1 May 2025 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This amending Standard is secondary legislation for the purposes of the Legislation Act 2019.

The amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The amending Standard was published under the Legislation Act 2019 on 1 May 2025 and takes effect on 29 May 2025.

Commencement and application

The amending Standard has a mandatory date of 1 January 2026, meaning it must be applied by Tier 1 and Tier 2 for-profit entities for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this amending Standard takes effect – refer to:

- Paragraphs NZ7.1.15.1 – NZ1.15.3 of amendments to NZ IFRS 9 *Financial Instruments;* and
- Paragraphs NZ44PP.1 – NZ44PP.3 of amendments to NZ IFRS 7 *Financial Instruments: Disclosures.*

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CONTENTS

Part A

Introduction

This document sets out amendments to NZ IFRS 9 *Financial Instruments* and NZ IFRS 7 *Financial Instruments: Disclosures.* These amendments introduce requirements addressing contracts referencing nature-dependent electricity and are identical to *Contracts Referencing Nature-dependent Electricity—Amendments to IFRS 9 and IFRS 7*, issued by the International Accounting Standards Board (IASB).

The amendments include:

- clarifying the application of the 'own-use' requirements;
- permitting hedge accounting if these contracts are used as hedging instruments; and
- adding new disclosure requirements to enable investors to understand the effect of these contracts on a company's financial performance and cash flows.

Part B

Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C

Amendments to NZ IFRS 9 *Financial Instruments*

Paragraphs 2.3A–2.3B, 2.8, 6.10.1–6.10.2, 7.1.15, 7.2.51–7.2.53, B2.7–B2.8 and their subheadings are added. A subheading is also added before paragraph 2.4. Paragraph 2.6 is amended. New text is underlined. Paragraphs 2.4 and 2.5 are not amended but are included for ease of reference.

Chapter 2 Scope

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2.3A **Paragraphs 6.10.1–6.10.2 and B2.7–B2.8 apply only to contracts referencing nature-dependent electricity. Contracts referencing nature-dependent electricity are 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). Contracts referencing nature-dependent electricity include both contracts to buy or sell nature-dependent electricity and financial instruments that reference such electricity.**

2.3B An entity shall not apply paragraphs 6.10.1–6.10.2 and B2.7–B2.8 by analogy to other contracts, items or transactions.

Contracts to buy or sell non-financial items

2.4 **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. However, this Standard shall be applied to those contracts that an entity designates as measured at fair value through profit or loss in accordance with paragraph 2.5.**

2.5 **A contract 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 contract was a financial instrument, may be irrevocably designated as measured at fair value through profit or loss even if it was entered into 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. This designation is available only at inception of the contract and only if it eliminates or significantly reduces a recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from not recognising that contract because it is excluded from the scope of this Standard (see paragraph 2.4).**

2.6 There are various ways in which a contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments. These include:

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A contract to which (b) or (c) applies 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 this Standard. Other contracts (which include contracts as described in paragraph 2.3A) to which paragraph 2.4 applies are evaluated to determine whether they were entered into and continue to be held 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, whether they are within the scope of this Standard.

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2.8 An entity shall also apply paragraphs B2.7–B2.8 to assess whether contracts referencing nature-dependent electricity (as described in paragraph 2.3A) 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.

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Chapter 6 Hedge accounting

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6.10 Contracts referencing nature-dependent electricity

6.10.1 Some contracts referencing nature-dependent electricity are designated as hedging instruments in hedges of forecast electricity transactions. In addition to the requirements in paragraph 6.3.7, for such a hedging relationship an entity is permitted 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. The other hedge accounting requirements of this chapter continue to apply to such a hedging relationship.

6.10.2 If the cash flows of the contract referencing nature-dependent electricity designated as the hedging instrument are conditional on the occurrence of a forecast transaction that is designated as the hedged item in accordance with paragraph 6.10.1, this forecast transaction is presumed to be highly probable as required by paragraph 6.3.3.

Chapter 7 Commencement, application and transition

7.1 Commencement and application

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Contracts Referencing Nature-dependent Electricity

7.1.15 The amending Standard *Contracts Referencing Nature-dependent Electricity – Amendments to NZ IFRS 9 and NZ IFRS 7*, published in May 2025, added paragraphs 2.3A–2.3B, 2.8, 6.10.1–6.10.2, 7.2.51–7.2.53, and B2.7–B2.8 and amended paragraph 2.6. An entity shall apply those amendments in accordance with the commencement and application date provisions in paragraphs NZ7.1.15.1–NZ7.1.15.3. An entity that applies those amendments to an 'early adoption accounting period' shall disclose that fact.

When amending Standard takes effect (section 27 Financial Reporting Act 2013)

NZ7.1.15.1 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on 1 May 2025 and takes effect on 29 May 2025

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act)

NZ7.1.15.2 The accounting periods in relation to which this amending Standard commences to apply are:

(a) for an **early adopter**, those accounting periods following and including, the **early adoption accounting period**.

(b) for any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

NZ7.1.15.3 In paragraph NZ7.1.15.2:

early adopter means a reporting entity that applies this amending Standard for an **early adoption accounting period**

early adoption accounting period means an accounting period of the **early adopter**:

(a) that begins before the **mandatory date** but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and

(b) for which the **early adopter**:

(i) first applies this amending Standard in preparing its financial statements; and

(ii) discloses in its financial statements for that accounting period that this amending Standard has been applied for that period.

mandatory date means 1 January 2026.

7.2 Transition

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Transition for *Contracts Referencing Nature-dependent Electricity*

7.2.51 An entity shall apply paragraphs 2.3A–2.3B, 2.8 and B2.7–B2.8 retrospectively in accordance with NZ IAS 8 using the facts and circumstances at the date of initial application (the date when an entity first applies the amendments). The date of initial application shall be the beginning of a reporting period, which might be a reporting period other than an annual reporting period. An entity need not restate prior periods to reflect the application of these amendments. The entity is 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 shall 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.

7.2.52 If a contract referencing nature-dependent electricity (as described in paragraph 2.3A) would be outside the scope of NZ IFRS 9 as a result of applying the requirements in paragraphs B2.7–B2.8, an entity is permitted, at the date of initial application, to irrevocably designate this contract as measured at fair value through profit or loss in accordance with paragraph 2.5.

7.2.53 An entity shall apply paragraphs 6.10.1–6.10.2 prospectively to new hedging relationships designated on or after the date of initial application. An entity is permitted, at the date of initial application, to discontinue a hedging relationship in which a contract referencing nature-dependent electricity (as described in paragraph 2.3A) has been designated as the hedging instrument, if the same hedging instrument is designated in a new hedging relationship in accordance with paragraphs 6.10.1–6.10.2.

Appendix B

Application guidance

This appendix is an integral part of the Standard.

Scope (Chapter 2)

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Contracts to buy nature-dependent electricity

B2.7 Some contracts referencing nature-dependent electricity (as described in paragraph 2.3A) require an entity to buy and take delivery of the electricity when it is generated. These contractual features expose the entity to the risk that it would be required to buy electricity during a delivery interval in which the entity cannot use the electricity. The entity might also have no practical ability to avoid making sales of unused electricity because the design and operation of the electricity market in which the electricity is transacted under the contract require any amounts of unused electricity to be sold within a specified time. When an entity applies the requirements in paragraph 2.4, such sales are not necessarily inconsistent with the contract being held in accordance with the entity's expected usage requirements. An entity entered into and continues to hold such a contract 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.

B2.8 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. The entity identifies 'a reasonable amount of time' 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. In determining whether the entity has been a net purchaser, 'a reasonable amount of time' shall not exceed 12 months.

Part D

Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 5B–5D, 30A–30C, 44OO–44PP and the subheading before paragraph 30A are added. Paragraph 5 is included for ease of reference. New text is underlined.

Scope

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5 This NZ IFRS applies to contracts to buy or sell a non-financial item that are within the scope of NZ IFRS 9.

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5B Paragraph 30A applies only to contracts to buy nature-dependent electricity that satisfy the requirements in paragraph 2.3A of NZ IFRS 9 and are outside the scope of that Standard in accordance with paragraphs B2.7–B2.8 of NZ IFRS 9.

5C Paragraph 30B applies only to contracts that satisfy the requirements in paragraph 2.3A of NZ IFRS 9 and have been designated in a cash flow hedging relationship in accordance with paragraph 6.10.1 of NZ IFRS 9.

5D Paragraph 30C applies only to contracts that satisfy the requirements in paragraph 2.3A of NZ IFRS 9 and have been entered into with regards to an entity's electricity purchases. These contracts comprise those:

(a) within the scope of NZ IFRS 9; and

(b) outside the scope of NZ IFRS 9 in accordance with paragraph 2.4 of that Standard, including those excluded in accordance with paragraphs B2.7–B2.8 of that Standard.

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Significance of financial instruments for financial position and performance

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Other disclosures

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Contracts referencing nature-dependent electricity

30A An entity shall disclose in a single note in its financial statements information about contracts that meet the criteria set out in paragraph 5B. In particular, the entity shall 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. To meet these objectives, an entity shall disclose:

(a) information about contractual features that expose the entity to:

(i) variability in the underlying amount of electricity (see paragraph 2.3A of NZ IFRS 9); 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 (see paragraph B2.7 of NZ IFRS 9).

(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. The entity shall apply its judgement when identifying the appropriate time bands within which to disclose the estimated future cash flows.

(ii) qualitative information about how the entity assesses whether a contract might become onerous (see NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*), including the assumptions the entity uses in making this assessment.

(c) qualitative and quantitative information about effects on the entity's financial performance for the reporting period. The disclosure is based on the information that is applicable to the reporting period that the entity used to assess whether it has been a net purchaser of electricity (see paragraph B2.8 of NZ IFRS 9). An entity shall disclose information for the reporting period about:

(i) the costs arising from purchases of electricity made under the contracts, disclosing separately how much of the purchased electricity was unused at the time of delivery;

(ii) the proceeds arising from sales of unused electricity; and

(iii) the costs arising from purchases of electricity made to offset sales of unused electricity.

30B An entity shall disaggregate, for its contracts that meet the criteria set out in paragraph 5C, the information the entity discloses, by risk category, about the terms and conditions of hedging instruments in accordance with paragraph 23A.

30C If an entity discloses information about other contracts referencing nature-dependent electricity as described in paragraph 5D (including those contracts described in paragraph 30B) in other notes in its financial statements, the entity shall include cross-references to those notes in the single note required by paragraph 30A.

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Commencement and application

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Contracts Referencing Nature-dependent Electricity

44OO The amending standard *Contracts Referencing Nature-dependent Electricity – Amendments to NZ IFRS 9 and NZ IFRS 7*, issued in May 2025, which also amended NZ IFRS 9, added paragraphs 5B–5D, 30A–30C and 44PP. An entity shall apply these paragraphs in accordance with the commencement and application date provisions in paragraphs NZ44PP.1-NZ44PP.3. An entity that applies these amendments to an 'early adoption accounting period' shall disclose that fact.

44PP In the reporting period in which an entity first applies *Contracts Referencing Nature-dependent Electricity – Amendments to NZ IFRS 9 and NZ IFRS 7*, the entity need not disclose the quantitative information that would otherwise be required by paragraph 28(f) of NZ IAS 8.

When amending Standard takes effect (section 27 Financial Reporting Act 2013)

NZ44PP.1 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on 1 May 2025 and takes effect on 29 May 2025.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act)

NZ44PP.2 The accounting periods in relation to which this amending Standard commences to apply are:

(c) for an **early adopter**, those accounting periods following and including, the **early adoption accounting period**.

(d) for any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

NZ44PP.3 In paragraph NZ44PP.2:

early adopter means a reporting entity that applies this amending Standard for an **early adoption accounting period**

early adoption accounting period means an accounting period of the **early adopter**:

(c) that begins before the **mandatory date** but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and

(d) for which the **early adopter**:

(i) first applies this amending Standard in preparing its financial statements; and

(ii) discloses in its financial statements for that accounting period that this amending Standard has been applied for that period.

mandatory date means 1 January 2026.