

Explanatory Statement

Accounting Standard AASB 2025-1 *Amendments to Australian Accounting Standards – Contracts Referencing Nature-dependent Electricity*

February 2025



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2025-1

This Standard makes amendments to AASB 7 *Financial Instruments: Disclosures* (August 2015) and AASB 9 *Financial Instruments* (December 2014).

These amendments arise from the issuance of International Financial Reporting Standard *Contracts Referencing Nature-dependent Electricity* (Amendments to IFRS 9 and IFRS 7) by the International Accounting Standards Board (IASB) in December 2024.

Main Features of AASB 2025-1

Nature-dependent electricity contracts help entities to secure their electricity supply from sources such as wind and solar power. The amount of electricity generated under these contracts can vary based on uncontrollable factors such as weather conditions.

This Standard amends AASB 7 and AASB 9 to allow entities to better reflect these contracts in the financial statements. The amendments:

- (a) clarify the application of the 'own-use' criteria to nature-dependent electricity contracts;
- (b) permit hedge accounting if these contracts are used as hedging instruments; and
- (c) add new disclosure requirements to enable users of financial statements to better understand the effect of these contracts on an entity's financial performance and cash flows.

Application Date

This Standard applies to annual periods beginning on or after 1 January 2026, with earlier application permitted.

Marked-up Text

This Standard incorporates marked-up text to clearly identify the amendments to AASB 7 and AASB 9. All amendments are incorporated using clean text into the compilations of the pronouncements when they are prepared, based on the legal commencement date of the amendments.

Consultation Prior to Issuing this Standard

In May 2024, the IASB issued Exposure Draft ED/2024/3 *Contracts for Renewable Electricity*. The AASB issued the same proposals in Australia for public comment in Exposure Draft ED 330 *Contracts for Renewable Electricity*. Comments to the AASB were due by 21 June 2024.

The AASB made a submission to the IASB on ED/2024/3. The AASB's submission supported the proposals overall, with recommendations for further clarification, suggestions for illustrative examples of the proposed hedge accounting requirements, and postponement of the effective date by one more year beyond that suggested by the IASB. The AASB's submission was informed by feedback from targeted outreach activities, including consultation with the AASB Financial Instruments Project Advisory Panel, the AASB User Advisory Committee, financial statement preparers, auditors and professional bodies.

The IASB analysed the feedback it received on ED/2024/3 and decided to finalise the amendments after making some modifications, which satisfactorily addressed the AASB's concerns. The modifications for the Standard included wording changes to improve clarity, clarification of the proposed additional disclosures and postponing the effective date to 1 January 2026, with earlier application permitted. The IASB also developed an illustrative example of applying the hedge accounting requirements.

The AASB considered and adopted the amendments made by the IASB to IFRS 7 and IFRS 9 in finalising AASB 2025-1. The AASB set an effective date of annual periods beginning on or after 1 January 2026, with earlier application permitted, the same as the IASB's effective date.

A Policy Impact Analysis has not been prepared in connection with the issue of AASB 2025-1 as the amendments made do not have a substantial direct or indirect impact on business or competition.

Legislative Features of Accounting Standards

Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal,

rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

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Exemption from Sunsetting

Accounting Standards promulgated by the AASB that are legislative instruments are exempt from the sunsetting provisions of the *Legislation Act 2003* through section 12 of the *Legislation (Exemptions and Other Matters) Regulation 2015* (Item 18(a)).

The AASB's Australian Accounting Standards incorporate Standards set by the International Accounting Standards Board in respect of publicly accountable for-profit entities. The AASB's Accounting Standards are exempt from sunsetting because a more stringent review process than sunsetting applies to the Standards. This review process ensures Australia's Accounting Standards regime remains consistent with international Standards. Typically, the AASB Standards are revised at least once within a ten-year period, with most of the Standards subject to much more frequent revisions. Each revision follows the stringent review process (which includes the opportunity for public comment) in order to remain consistent with international Standards. It is very unlikely that any AASB Standard would not have been amended (or else considered for amendment) within a ten-year period through these review processes. Therefore, if it applied, a ten-year sunsetting regime would have very limited practical application to AASB Standards. Parliamentary oversight is retained whenever a Standard is replaced or amended since the Standards are disallowable instruments and subject to the normal tabling and scrutiny process as required by the *Legislation Act 2003*.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011

Accounting Standard AASB 2025-1 *Amendments to Australian Accounting Standards – Contracts Referencing Nature-dependent Electricity*

Overview of the Accounting Standard

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This Standard amends AASB 7 and AASB 9 to allow entities to better reflect contracts referencing nature-dependent electricity in the financial statements. The amendments:

- (a) clarify the application of the 'own-use' criteria to nature-dependent electricity contracts;
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- (c) add new disclosure requirements to enable users of financial statements to better understand the effect of these contracts on an entity's financial performance and cash flows.

Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.