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Staff paper

Agenda reference: 4

Accounting Standards Advisory Forum meeting

Date	**July 2024**
Project	**Power Purchase Agreements**
Topic	**Exposure Draft *Contracts for Renewable Electricity***
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Purpose of this session

1. To provide an overview of:
    - the IASB's objectives in publishing the Exposure Draft *Contracts for Renewable Electricity*;
    - the proposed amendments to IFRS 9; and
    - the proposed disclosure requirements in IFRS 7.
2. To ask ASAF members their views on questions listed on slide 5.

Contents

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Questions for ASAF members

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1	In your view, would the proposed requirements (see slides 9–14) address the objectives the IASB aims to achieve (see slide 7)? If not, why not and what alternatives would you suggest?
2	Are you aware of any operational challenges in providing the proposed disclosures (see slide 13)? If so, what reasons did your stakeholders provide and do they have any alternative suggestions to provide useful information to users of financial statements?
3	Do you have views about an appropriate effective date for the proposed amendments given the ask from stakeholders for a timely solution?

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Objectives and boundary of the proposals

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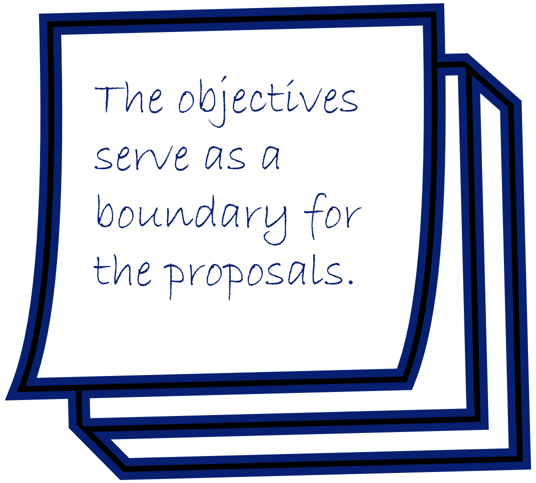
The IASB aims with the proposals:

- to better reflect the economic effects of contracts for renewable electricity in a company’s financial statements;
- to reduce the risk of unintended consequences;
- to enable investors to understand the effect on financial performance and future cash flows; and
- to respond swiftly to stakeholder concerns and enable companies to apply the amendments as soon as issued.



Proposed amendments

Power Purchase Agreements (PPAs) vs. contracts for renewable electricity:

To better reflect the economic effects of contracts for renewable electricity in a company’s financial statements.

Contracts for renewable electricity:

- are typically structured as PPAs;
- are based on proportion of the volume of electricity produced by a referenced production facility (ie a specified wind or solar farm);
- specify a fixed price for electricity produced;
- can be either gross- or net-settled; and
- often include renewable electricity certificates (RECs) or similar attributes.

Scope of the proposals

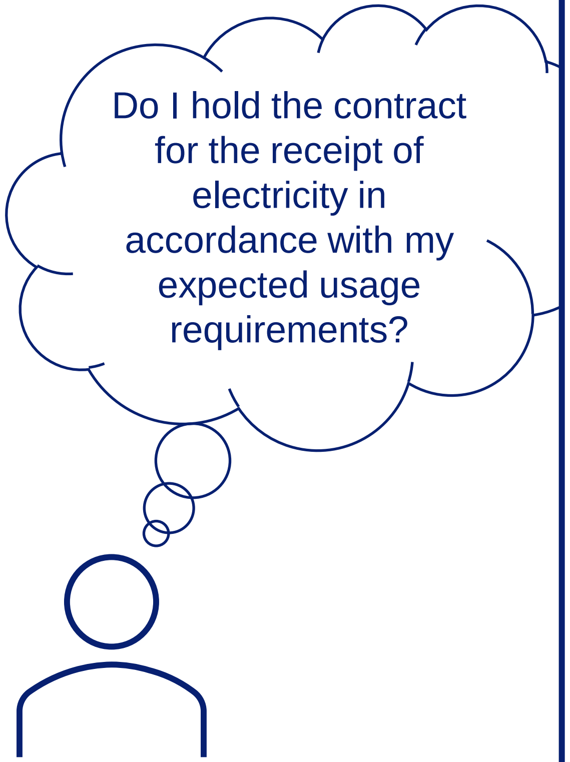
To reduce the risk of unintended consequences.

Contracts for renewable electricity that have both of the following characteristics:

1. source for production of electricity is nature-dependent ➡ supply cannot be guaranteed; and
2. purchaser exposed to substantially all volume risk through ‘pay-as-produced’ features.

‘Own-use’ requirements (paragraph 2.4 of IFRS 9)

To enable the forced sales that a company has no control over to not affect the own-use assessment.



For contracts to buy and take delivery of renewable electricity (ie physical PPAs), the **purchaser** considers at inception and at each reporting date the:

1. purpose, design and structure of contract, including volumes expected to be delivered.
2. whether past and expected sales of unused electricity shortly after delivery occur because of:
   - the company’s exposure to volume risk (pay-as-produced features);
   - the design and operation of the electricity market in which the electricity is traded; and
   - the company expects to purchase at least an equivalent volume of electricity within reasonable time after the sale.

Hedge accounting requirements

To enable the hedge accounting relationship to not be affected by volume uncertainty

If a contract for renewable electricity is used as a hedging instrument in a cash flow hedging relationship, the proposals permit the:

1 Designation as a hedged item

- a variable nominal volume of forecasted sales or purchases

if, and only if that variable amount:

- relates to the variable volume of the hedging instrument; and
- is highly probable.#

2 Measurement of the hedged item

- using the volume assumptions as those used for measuring the hedging instrument;
- however, all other assumptions reflect the nature and characteristics of the hedged item

forecasted sales are not required to be highly probable if the hedging instrument relates to a proportion of the total future renewable electricity sales from the production facility as referenced in the contract for renewable electricity

Disclosure requirements

To enable investors to understand the effect on financial performance and future cash flows

Disclosures by both **sellers** and **purchasers** for all contracts for renewable electricity within the scope of the proposals:

1. the terms and conditions of the contracts.
2. the volume of renewable electricity a seller expects to sell, or a purchaser expects to purchase, over the remaining duration of the contracts; or the fair value at the reporting date within specified time bands.
3. the proportion of renewable electricity covered by the contracts to the total electricity sold or purchased for the reporting period.
4. purchasers need to disclose the total net volume of electricity purchased, the average market price per unit of electricity and if the total net volume multiplied by the average market price differs substantially from the actual total cost, a qualitative explanation of the key reasons for this difference.

Transition requirements

To respond swiftly to stakeholder concerns and enable companies to apply the amendments as soon as issued

Date of initial application[1]

- Own-use requirements: modified retrospective application with cumulative catch-up.
- Hedge-accounting requirements: prospective application but with permission to alter designation of existing cash flow hedging relationships.

1. Early application will be permitted.

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