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## FASB | IASB Education Meeting

Date	29 September 2023	
Project	Power Purchase Agreements	
Topic	Exposure Draft <i>Contracts for Renewable Electricity</i>	
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# Summary of proposals included in the Exposure Draft *Contracts for Renewable Electricity*

## High-level summary of proposals

### 1 Scope

The proposals apply to contracts for renewable electricity with both of the following characteristics:

- a) the source of production of the renewable electricity is nature-dependent; and
- b) that contract exposes the purchaser to substantially all the volume risk

### 2 Own-use

Applying the own-use requirements in IFRS 9 *Financial Instruments*, an entity shall consider:

- a) the purpose, design and structure of the contract; and
- b) the reasons for past and expected sales of unused renewable electricity within a short period after delivery (net purchaser requirement).

### 3 Hedge-accounting

The proposals permit:

- a) designating a variable nominal amount, of forecasted electricity transactions (sales or purchases) as the hedged item if the hedged item relates to the hedging instrument and is highly probable; and
- b) measuring the hedged item using the volume assumptions used for measuring the hedging instrument.

### 4 Disclosures

Requires disclosure of information that enables investors to understand the effect on:

- a) future cash flows; and
- b) financial performance.

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# Summary of feedback on the Exposure Draft




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## Overview of feedback

- General support for:
  - the swift and speedy development of the proposals
  - the inclusion of both physical delivery contracts and financial contracts for difference
  - the narrow-scope approach
- Although respondents agreed with the general direction of the proposals, they asked for clarification on some aspects of the proposals, most notably on:
  - the scope of contracts for renewable electricity to which the amendments would apply
  - the own-use amendments; and
  - the disclosures

## Overview of feedback (cont'd)

Topic	Feedback
Scope	
Own-use amendments	
Hedge accounting amendments	
Disclosures	
Disclosures for subsidiaries without public accountability	
Transition requirements	
Effective date	

	Legend
	Proposals require significant clarification
	Proposals require some clarification
	Proposals require minor clarification

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# Addressing the feedback received



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## IASB's tentative decisions at its September 2024 meeting

### *Scope of the proposed amendments*

The IASB tentatively decided to finalise the proposed scope of the amendments, subject to clarifying that contracts within the scope of the proposed amendments:

- a) reference nature-dependent electricity generated from sources that depend on natural conditions that cannot be controlled;
- b) can be settled net or gross; and
- c) expose an entity to cash-flow variability that depends on the contracted amount of nature-dependent electricity.

Thirteen of 14 IASB members agreed with these decisions.

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## IASB's tentative decisions at its September 2024 meeting (cont'd)

### *Own-use amendments*

The IASB tentatively decided to finalise the proposed requirements on applying paragraph 2.4 of IFRS 9 to a contract to buy nature-dependent electricity. This finalisation is subject to clarifying the relationship between the proposed requirements and requirements in paragraphs 2.4–2.7 of IFRS 9 and that an entity:

- a) applies the additional considerations for these electricity contracts only if:
    - i. the contractual features expose the entity to the risk of oversupply of electricity in any delivery interval; and
    - ii. the entity does not have the practical ability to avoid selling any oversupply of electricity at the market-determined time, based on the design and operation of the market in which electricity is bought.
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## IASB's tentative decisions at its September 2024 meeting (cont'd)

### *Own-use amendments (cont'd)*

- b) assesses whether it will be a net purchaser over a reasonable amount of time when applying the own-use requirements to such a contract. An entity is a net purchaser if it buys enough electricity in the market in which it buys electricity to offset sales of any oversupply in that same market.
- c) making the assessment described in (b), considers:
  - a. the seasonality of the nature-dependent source of electricity generation and the entity's business cycle to decide what constitutes 'a reasonable amount of time'. The IASB tentatively decided that a 'reasonable amount of time' cannot exceed 12 months.
  - b. all reasonable and supportable information, including forward-looking information, at the date of the assessment.
  - c. whether it has been a net purchaser over a reasonable amount time (but not exceeding 12 months).

Twelve of 14 IASB members agreed with these decisions.

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## Preliminary views on clarifying hedge accounting

Based on our preliminary analysis of the feedback for hedge accounting we think the proposed hedge accounting requirements could be finalised, subject to:

- a) clarifying that general hedge accounting requirements of IFRS 9 continues to apply apart from specific requirements;
- b) providing guidance on designating the hedged item as a variable nominal amount with sufficient specificity considering the timing and magnitude of the forecast transactions designated
- c) clarifying that forecast purchases are not required to be estimated for each discrete time interval during which electricity could be purchased;
- d) clarifying that for purposes of assessing the economic relationship, cash flows of the hedged item and hedging instrument are not required to occur simultaneously;

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## Preliminary views on clarifying hedge accounting (cont'd)

- e) clarifying that for example for a seller who is the generator of electricity spot sales are highly probable by nature through the contractual terms of the hedging instrument which link volumes in the hedging instrument to the spot sales. This may also be the case for spot purchases in cases of gross settled contracts which are used as hedging instruments
- f) clarifying how a purchaser determines that the expected volume of electricity to be delivered under the hedging instrument do not exceed the capacity of highly probable forecasted spot purchases;
- g) including an example to illustrate application of proposed amendments, for example designating variable notional and measurement of ineffectiveness.

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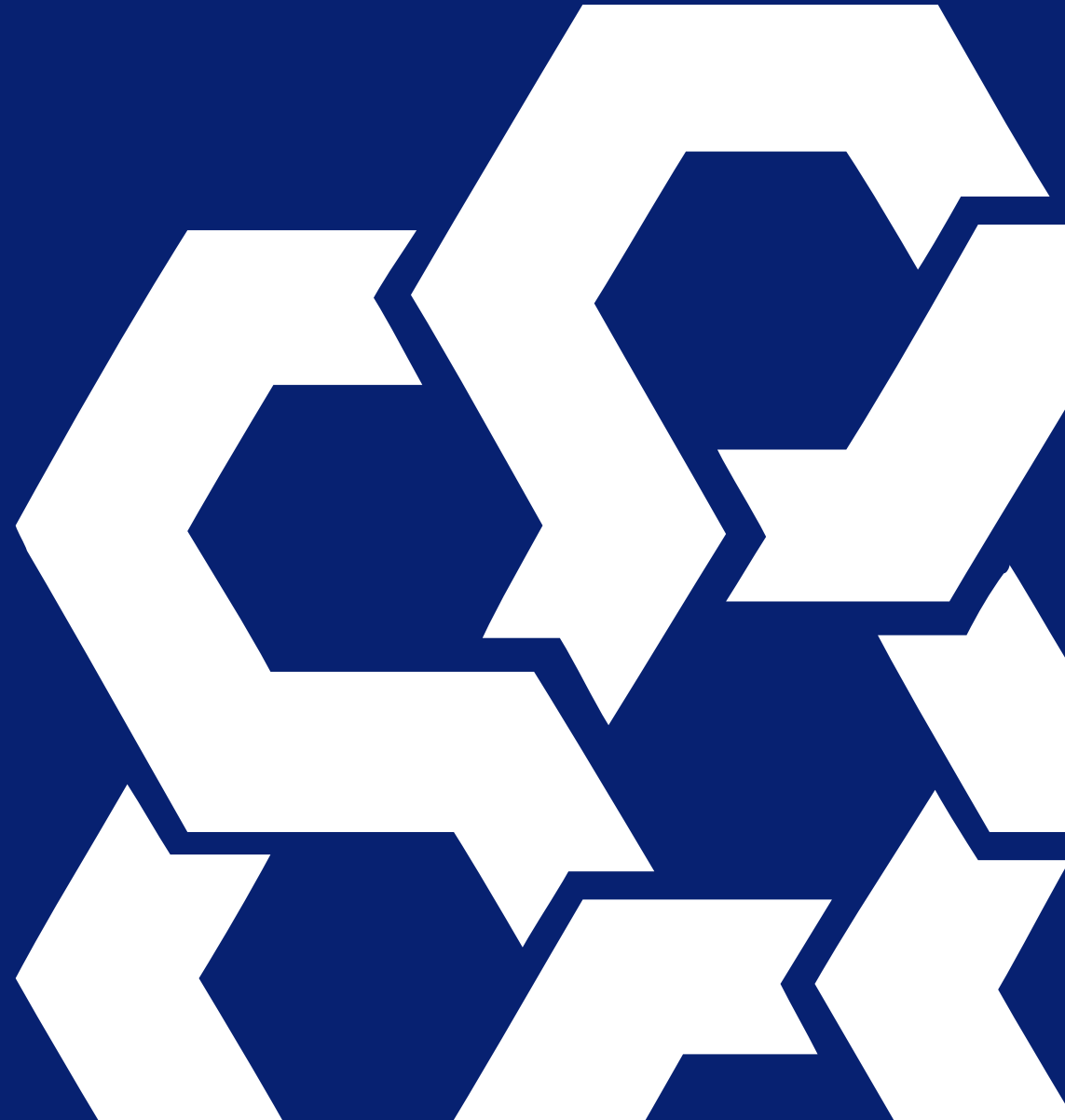
## Preliminary views on clarifying disclosures

Based on our preliminary analysis of the feedback, we think the proposed disclosures could be finalised, subject to:

- a) reducing the scope of disclosures to contracts subject to the amendments.
- b) clarifying the items of information to be disclosed to meet the disclosure objectives.
- c) Balancing the disclosures between not requiring disclosure of commercially sensitive information, the costs of preparing the information and with the need for providing useful information to investors.

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## Next steps



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## Next steps

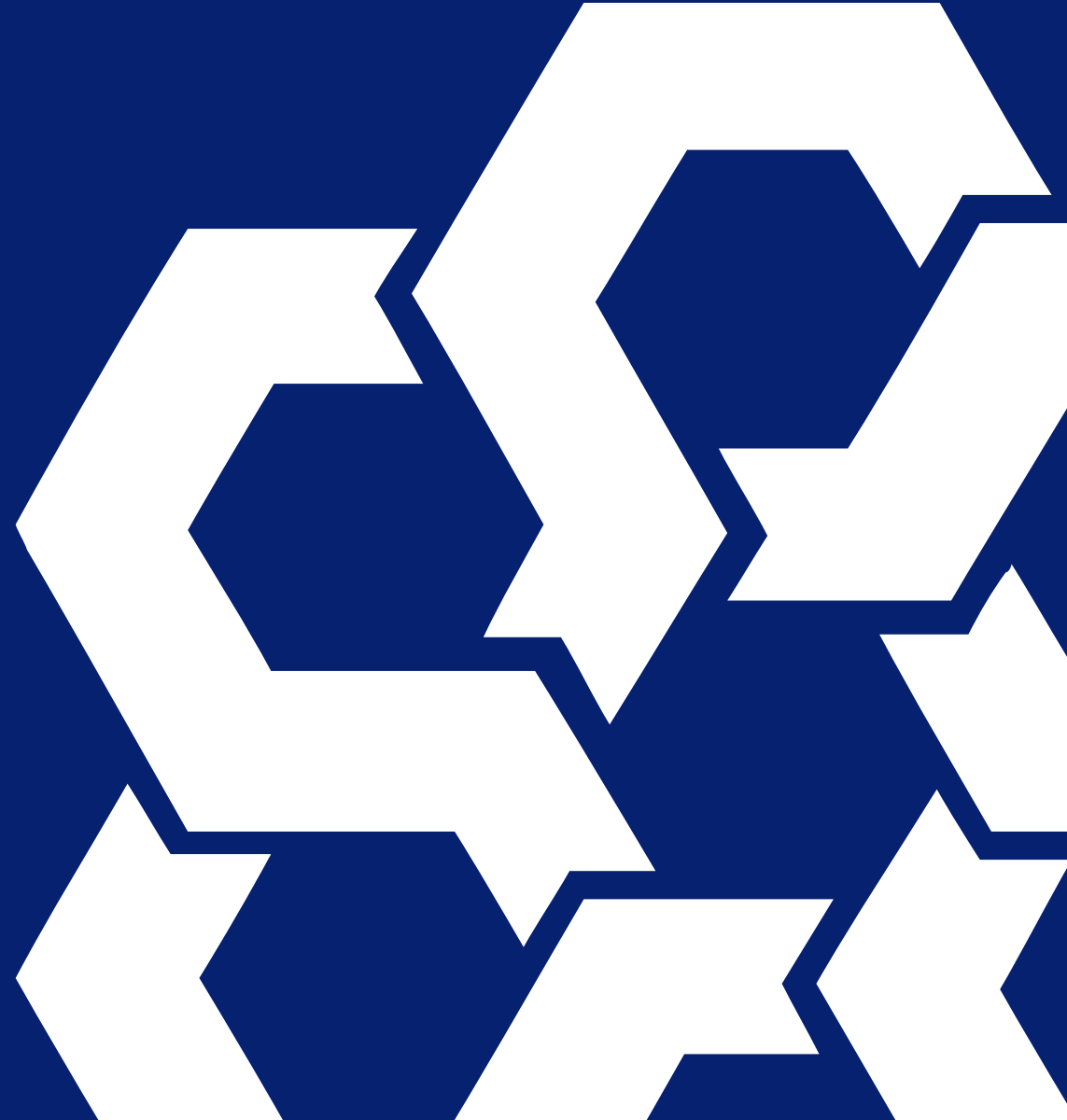
The IASB will consider the hedge-accounting amendments, disclosures, effective date and transition and due process steps at a future meeting.

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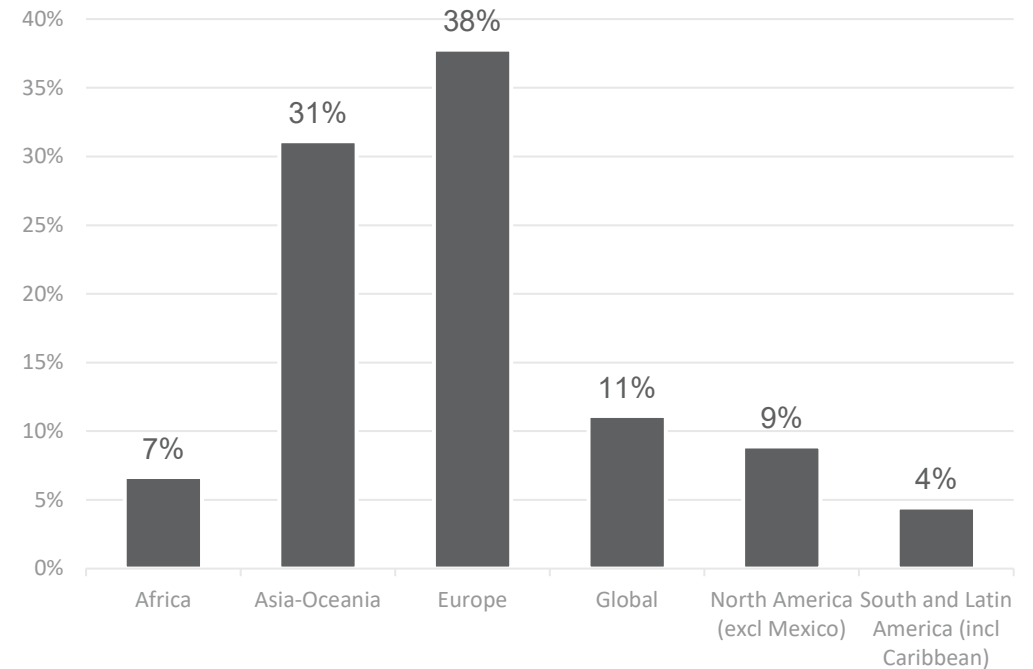
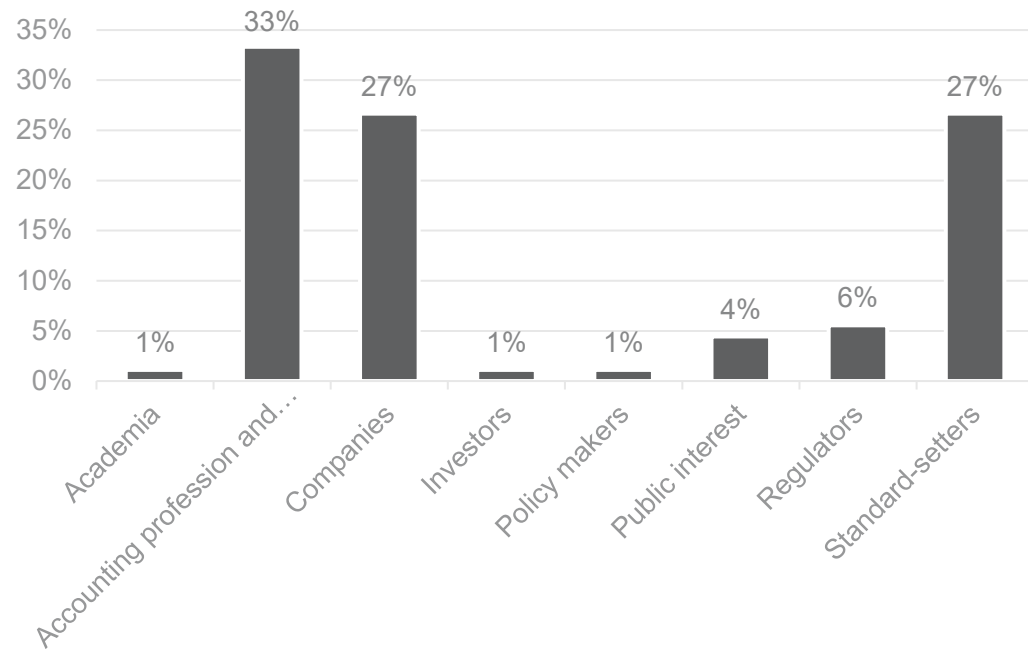
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## Appendix—Respondents' profile



## Comment letters by type and jurisdiction

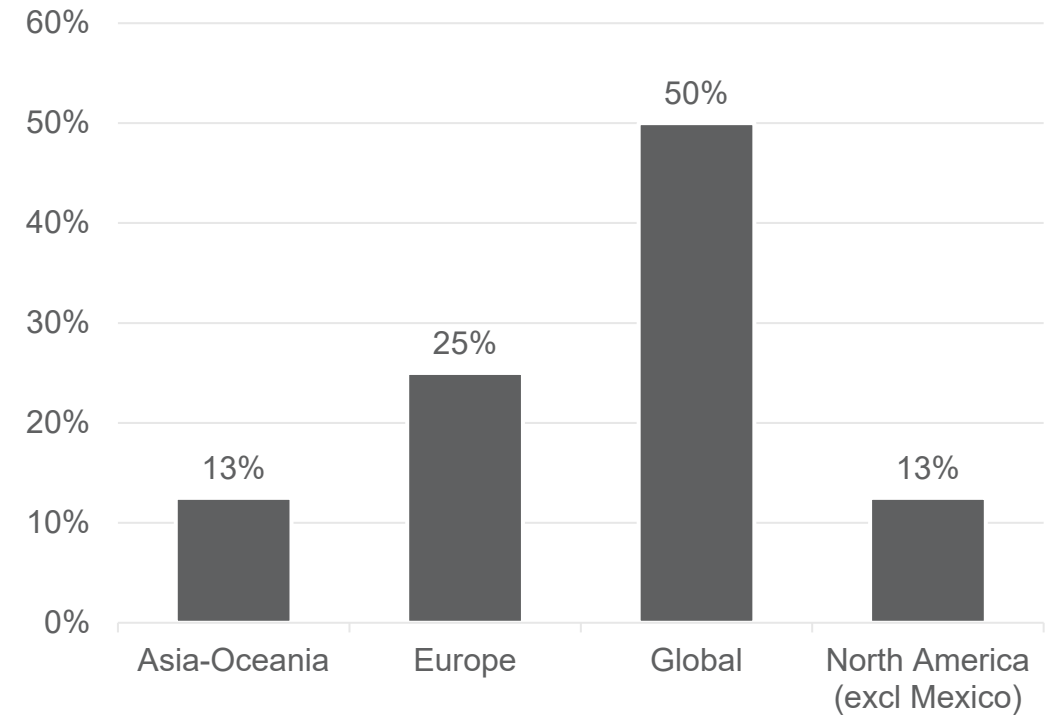
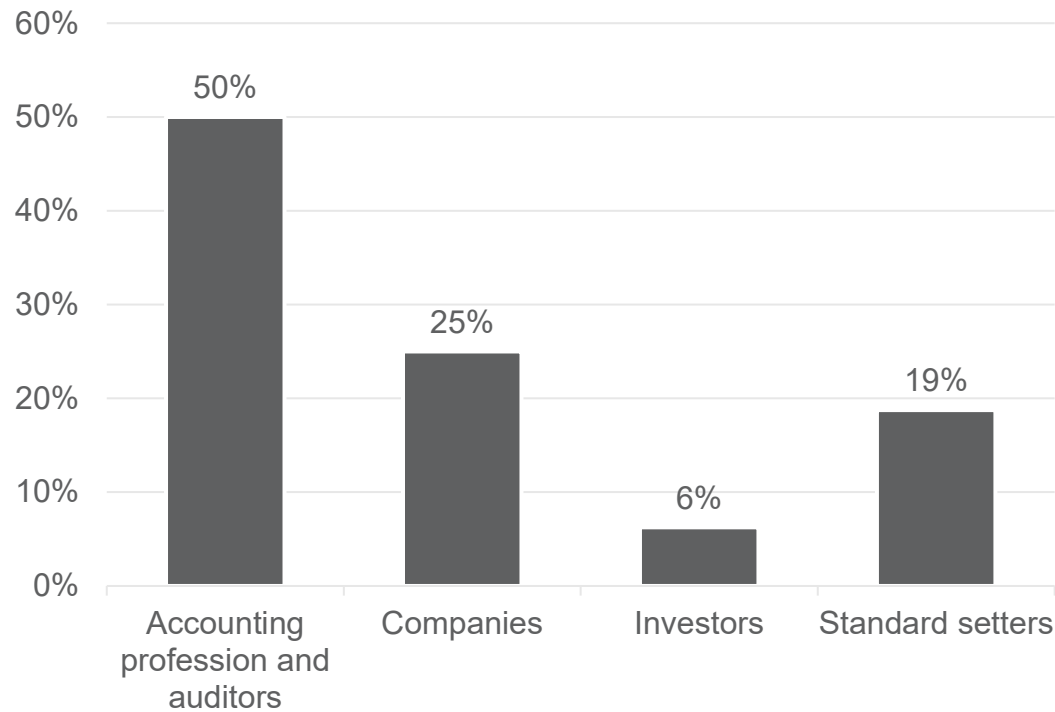
- 90 Comment letters received\*



\*including 2 comment letters received after the deadline.

## Additional outreach meetings since publication of the ED

- 16 meetings\*



\*including the [June 2024](#) joint meeting of the Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) and the [July 2024](#) meeting of the Accounting Standards Advisory Forum (ASAF).

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