
IASB[®] Meeting

Date	October 2024	
Project	Power Purchase Agreements (PPAs)	
Topic	Cover paper	
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Purpose of this paper

1. The purpose of this meeting is to provide the International Accounting Standards Board (IASB) with our analysis and recommendations on how to proceed on the project [Power Purchase Agreements](#) and ask the IASB whether it agrees with our recommendations.

Project history

2. In May 2024 the IASB published the [Exposure Draft Contracts for Renewable Electricity](#) (Exposure Draft), which proposed amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*. The comment period ended on 7 August 2024. At a supplementary meeting in [August 2024](#), the IASB discussed a summary of feedback on the Exposure Draft but was not asked to make any decisions at that stage.
3. At its [September 2024](#) meeting, the IASB made tentative decisions about the scope of the amendments and the own-use amendments.

Structure of the papers

4. This agenda paper (Agenda Paper 3) includes a summary of our recommendations.
5. Agenda Papers 3A–3D for this meeting include:
 - (a) our analysis and recommendations about the hedge-accounting amendments (Agenda Paper 3A);
 - (b) our analysis and recommendations about disclosures (Agenda Paper 3B);
 - (c) our analysis and recommendations about the transition proposals and the effective date (Agenda Paper 3C); and
 - (d) the due process steps (Agenda Paper 3D).

Summary of recommendations

6. We recommend that the IASB proceed with its proposals in the Exposure Draft for the topics discussed in this meeting with some changes.
7. We recommend the proposed hedge accounting requirements in the Exposure Draft are finalised, subject to:
 - (a) clarifying to which requirements in Section 6.3 of IFRS 9 the proposed amendments are adding new requirements that apply to specified hedging relationships only and that all other hedge accounting requirements remain applicable;
 - (b) clarifying that the amount of forecasted transactions to be designated is the amount of highly probable electricity transactions that are aligned to the variable amount of nature-dependent electricity expected to be delivered by the particular facility *referenced* in the NDE contract;
 - (c) clarifying that for the purpose of the highly probable assessment:

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- (i) there is an assumption that an entity's forecasted electricity transactions will be determinable based on its past and current levels of transactions;
 - (ii) an entity is not required to make detailed estimates of forecast transactions for every minute of every day, but that the time intervals over which estimates are made are consistent with the frequency with which the hedged cash flows occur.
- (d) clarifying that forecast transactions are not required to be highly probable if the cash flows of the hedging instrument are contractually linked to the hedged item such that the cash flows only arise when the forecast transaction occurs.
- (e) providing in the final amendments qualitative examples to illustrate the application of proposed amendments.
8. We recommend that the IASB finalise the proposed disclosure requirements, including for an entity applying IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, but subject to:
- (a) limiting the scope of the disclosures to contracts accounted for applying the proposed amendments. These contracts consist of:
 - (i) contracts for the receipt of nature-dependent electricity that are accounted for as executory contracts in accordance with the own-use amendments; and
 - (ii) contracts designated in a hedging relationship as a hedging instrument in accordance with the hedge-accounting amendments.
 - (b) clarifying that for contracts in (a)(i), the entity discloses information about the contracts' terms and conditions that expose an entity to:
 - (i) the variability of the contracted amount of nature-dependent electricity; and
 - (ii) the risk of oversupply of electricity in any delivery interval.

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- (c) clarifying that for contracts in (a)(ii), the entity satisfies the proposed requirement to disclose information about the contracts' terms and conditions by disaggregating for NDE contracts in its financial statements the relevant disclosures required by paragraph 23A of IFRS 7 *Financial Instruments: Disclosures*.
 - (d) requiring an entity to disclose the aggregated expected cash flows from buying electricity under the entity's contracts in (a)(i) and qualitative information about how an entity manages the risk that these contracts might become onerous contracts. The entity applies its judgement determining the appropriate time bands within which to aggregate the future expected cash flows.
 - (e) requiring an entity to disclose qualitative and quantitative information about how the entity determined that it remained a net-purchaser under the contract for the reporting period, particularly information about the effects on its financial performance of:
 - (i) purchases under the contracts in (a)(i);
 - (ii) sales of unused electricity; and
 - (iii) purchases of electricity to offset these sales.
 - (f) amending paragraph 5 of IFRS 7 to ensure contracts in (a)(i) are subject to the proposed disclosures to be included in IFRS 7.
9. With regards to the effective date of the proposed amendments we recommend the IASB requires an effective of 1 January 2026, with early application permitted from the date of initial application. The date of initial application is the date when an entity first applies the proposed amendments and must be the beginning of a reporting period after the issue of these amendments
10. With regards to the transition requirements:
- (a) for the own-use amendments we recommend that the IASB:

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- (i) continue to require retrospective application without requiring comparative information to be restated (as proposed in the Exposure Draft);
 - (ii) require the assessment under the own use amendments to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - (iii) permit, at the date of initial application, the designation of NDE contracts at fair value through profit or loss in accordance with paragraph 2.5 of IFRS 9.
- (b) for hedge accounting requirements, we recommend the IASB:
- (i) continue to require prospective application of the hedge accounting requirements; and
 - (ii) permit an entity de-designate an existing hedging relationship on the date of initial application of the amendments and designate a new hedging relationship applying the amendments.

Next steps

11. We plan to finalise the amendments before the end of this calendar year.