
IASB[®] Meeting

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| Date | September 2024 | |
| Project | Power Purchase Agreements (PPAs) | |
| Topic | Cover paper | |
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

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.
3. 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.
4. In this meeting we focus on the feedback about how the IASB might improve and clarify its proposals.

Structure of the papers

5. This agenda paper (Agenda Paper 3) includes a summary of our recommendations.
6. Agenda Papers 3A–3B for this meeting include our analysis and recommendations about the:
 - (a) scope (Agenda Paper 3A); and
 - (b) own-use amendments¹ (Agenda Paper 3B); and

Summary of recommendations

7. We recommend that the IASB:
 - (a) replaces the term ‘contracts for renewable electricity’ with ‘nature-dependent electricity contracts’—a term that better reflects the specified characteristics of the electricity contracts within the scope of the proposed amendments. (Our other recommendations are worded assuming the IASB agrees with this recommendation.)
 - (b) develops no additional requirements for an entity to determine the appropriate unit of account for transactions in complex market designs and for transactions that include RECs or similar attributes.
 - (c) proceeds including in the scope of the proposed amendments electricity contracts with specified characteristics.
 - (d) clarifies that nature (or natural forces) controls the source from which electricity is produced and whether any electricity can be produced by the referenced facility at a given time.
 - (e) clarifies that for an electricity contract to be included in the scope of the proposed amendments, the cash flows under that contract vary based on the

¹ The proposed amendments for how an entity applies paragraph 2.4 of IFRS 9 *Financial Instruments* to a contract for the receipt of electricity produced from nature-dependent sources.

contracted volume of electricity produced by the referenced production facility.

- (f) incorporates and clarifies the concept of volume risk as part of the own-use amendments.
8. We also recommend that the IASB proceeds with its proposed amendments for an entity applying the requirements in paragraph 2.4 of IFRS 9 to a nature-dependent electricity contract entered into for the receipt of the electricity, subject to the following:
- (a) clarifying the application of the proposed amendments in the context of the requirements in paragraphs 2.4–2.7 of IFRS 9;
 - (b) clarifying that the additional considerations for these electricity contracts only apply when:
 - (i) the specified characteristics expose the entity to the risk of over-supply of electricity during a delivery interval; and
 - (ii) based on the design and operation of the market in which electricity is received, the entity does not have the practical ability to avoid selling any over-supply of electricity at the market-determined time.
 - (c) clarifying that an entity needs to expect to be a net-purchaser for a reasonable amount of time. Being a net-purchaser means the entity buys enough electricity in the market in which it receives electricity to offset sales of any over-supply in that market;
 - (d) clarifying that in performing the assessment in (c), an entity:
 - (i) considers information for a reasonable amount of time including the seasonality of the nature-dependent production source and the seasonality of its business. However, a reasonable amount of time shall not exceed 12 months from the date of the assessment.

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- (ii) considers all reasonable and supportable information, including that which is forward-looking, at the date of the assessment.
 - (e) clarifies that on a 12-month rolling basis an entity needs to have bought enough electricity in the same market from which the entity received the electricity to offset the entity's sales of any over-supply of electricity.

Next steps

9. We plan to bring to a next IASB meeting agenda papers that discuss the hedge-accounting amendments, proposed disclosure requirements, effective date and transition and due process steps.