

IASB project Power Purchase Agreements

Cover Note

Objective

- 1 The objective of this session is to obtain EFRAG FRB and EFRAG FR TEG members' views on possible amendments to IFRS 9 and to IFRS 7, if appropriate, to facilitate the accounting for Power Purchase Agreements.

Background of the IASB project

- 2 At its June 2023 meeting, the IASB tentatively decided to add a project to the work plan to research whether narrow-scope amendments could be made to IFRS 9 to better reflect how financial statements are affected by power purchase agreements ('PPAs') in which the underlying non-financial item:
 - (a) cannot be stored economically; and
 - (b) is required to either be consumed or sold within a short time as determined by the market structure in which the item is bought and sold.
- 3 The IASB's research has focused on:
 - (a) prevalence of PPAs;
 - (b) applying the own-use exception in IFRS 9 to physical PPAs; and
 - (c) applying the hedge accounting requirements in IFRS 9 using a virtual PPA as the hedging instrument.
- 4 At its December 2023 meeting, the IASB tentatively decided to further explore an approach to narrow-scope standard-setting that includes amending the own-use and hedge accounting requirements (see agenda paper 08-02).
- 5 Outreach conducted to date indicate that power purchase agreements are prevalent and important to a large number of European entities.

Key discussion points for the session

- 6 Agenda paper 08-02 discusses the research made by the IASB staff on the prevalence and potential standard setting approaches towards power purchase agreements. We would like to obtain feedback on the approaches discussed by the IASB.
- 7 Agenda paper 08-03 discusses an alternative model for the own use assessment. We would like to have feedback on its feasibility.

Questions for EFRAG FRB and EFRAG FR TEG

- 8 Do you agree with the IASB exploring an approach to narrow-scope standard-setting that includes amending the own-use and hedge accounting requirements to better reflect how financial statements are affected by PPAs?
- 9 Do you agree with the characteristics of the underlying non-financial item and the market structure that are included in paragraph 26 of agenda paper 08-02 to ring-fence the project and achieve a principle-based outcome?
- 10 Is the alternative solution suggested by the EFRAG Secretariat in agenda paper 08-03 a feasible solution to better reflect how financial statements are affected by PPAs that the IASB should further consider when looking at the own use requirements?

Next steps

- 11 The IASB intends to further discuss the approaches to better reflect how financial statements are affected by PPAs presented in agenda paper 08-02 in its January 2024 meeting. The EFRAG Secretariat is following the discussions in the project.

Agenda Papers

- 12 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 08-02 – EFRAG secretariat paper – Issues Paper; and
 - (b) Agenda paper 08-03 – EFRAG secretariat paper – Discussion of an alternative own use model.