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This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG-CFSS. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG-CFSS. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG FRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Power Purchase Agreements

Issues Paper

Objective

1 This agenda paper provides a summary of the potential amendments to IFRS 9 proposed by the IASB staff that will be discussed at the 29 January 2024 ASAF meeting and some remarks from the EFRAG secretariat on the IASB staff's proposals and on potential alternative solutions. The agenda paper also includes questions for EFRAG FR TEG-CFSS.

2 This paper has been prepared based on IASB Agenda paper AP1 of the ASAF January 2024 meeting, which is uploaded as agenda paper 01-03 for background purposes.

3 This paper is structured as follows:

(a) Application of the ‘own-use’ requirements

(b) Application of the hedge accounting requirements

(c) Appendix 1: Summary of discussions of the joint EFRAG FRB and EFRAG FR TEG meeting held on 19 December 2023

(d) Appendix 2: EFRAG Secretariat’s alternative model on hedge accounting

Application of the ‘own-use’ requirements

The issue raised by stakeholders

4 The IFRS IC received a submission about the application of the ‘own-use’ requirements (paragraph 2.4 of IFRS 9) to contracts for the procurement of renewable energy (PPAs) as part of a company’s commitment to reduce the effects of climate change and to decarbonise their production and products.

5 The challenge arises because of the unique characteristics of the non-financial item included in PPAs (i.e. power). PPA contracts are often considered to be settled net in cash

according to paragraph 2.6 of IFRS 9 even if a contract does not permit net settlement, hence, entities are required to determine if such contracts meet the 'own-use' requirements.

6 When the entity is not able to use the power delivered by the producer in accordance with the PPA within a short period[1], the power has to be sold back to the market at spot price in the relevant market. Power resales, which are normally not for the purpose of generating a profit from short-term fluctuations in price, often cause that an entity does not meet the 'own-use' requirements.

Potential additional application guidance

7 The IASB staff considers that most of the accounting challenges with physical PPAs can be resolved by adding application guidance to IFRS 9 that explains how the 'own-use' assessment in paragraph 2.4 is applied, rather than amending the requirements for net settlement in paragraph 2.6. Potential clarifications to paragraph 2.4 could be based on the unique characteristics of power, thereby limiting the effects of any potential amendments to only PPAs. In contrast, they consider that it would not be possible to limit the effects of potential amendments to paragraphs 2.6 to only PPAs and therefore there is a risk of having unintended consequences to other contracts to buy or sell a non-financial item.

8 The IASB staff is still of the view that potential amendments based on applying the 'own-use' requirements to a proportion[2] of a contract is not feasible because:

(a) the effects of such an approach cannot be limited to particular non-financial items;

(b) would most likely give rise to similar questions/application challenges to those that led to the IASB taking on this project.

9 The IASB staff holds the view that contracts to buy or sell non-financial items that have the following characteristics could be held 'for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements':

(a) the supply/production of the item is weather (and location) dependant such that the timing and/or volume of the item supplied are not necessarily aligned with the demand for the item;

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[1] Time unit set in the relevant market, normally between 5 and 60 minutes.

[2] Please note that the EFRAG Secretariat alternative 'own-use' model is based on portion and not proportion of a contract.

(b) the purchaser cannot avoid taking delivery of the non-financial item when produced due to the legal structure of the market the non-financial item is transacted in; and

(c) the market structure requires any quantities of the item that an entity is unable to use within a specified short period following delivery, is put back into the market at the prevailing market rate at that point. For this purpose, the timing of any resulting sales is determined by the market structure and the entity has no control/discretion over the timing or price of resulting sales.

10 The IASB staff proposes that a contract to buy a non-financial item with the characteristics described in paragraph 9, is and continues to be held for the entity's expected purchase, sale or usage requirements only if:

(a) the purpose, design and structure of the contract is to ensure the supply of the non-financial item in quantities that are consistent with an entity's expected 'own-use' requirements over the life of the contract. For example, a contract would fail the 'own-use' requirements if the entity contracted for more than its expected purchase requirements;

(b) sales of the non-financial item shortly after delivery arising from short-term mismatches between supply and demand are not to be inconsistent with an entity's own usage requirements if:

(i) the contracted volumes over the remaining life of the contract are still based on the entity's expected usage requirements;

(ii) the entity has used a volume of the non-financial item that is equal to, or more than, the volumes of the non-financial items delivered since inception of the contract; and

(iii) sales are not made to generate a profit from short-term fluctuations in the market price of the non-financial item.

11 The IASB staff is of the view that the potential amendments would:

(a) enable entities to overcome the accounting challenges described in paragraphs 4 to 6 by putting the emphasis on the entity's expected usage over the remaining life of the contract and the actual usage to date rather than on each delivery point that the entity could be contractually required to take deliveries.

(b) enable entities to faithfully represent the economic substance of contracts that include non-financial items that meet the features described in paragraph 9.

(c) reduce the risk of unintended consequences because the proposed amendments only apply to those contracts with the characteristics described in paragraph 9 but at the same time maintain consistency as far as possible with the current application of the 'own-use' requirements to other contracts to buy non-financial items, including the requirement to continuously assess whether the contract is still held for 'own-use' purposes.

Potential new disclosure requirements

12 The IASB staff had informal discussions with some members of their Capital Markets Advisory Committee (CMAC) who considered that the following information would be useful for long-term PPAs not falling into the scope of IFRS 9:

(a) A specific disclosure objective that requires entities to provide information that enable investors to understand the effects of the contracts on an entity's future cash flows.

(b) Items of information such as:

(i) the type of pricing (fixed vs variable);

(ii) the price agreed in the PPA (and possibly the market price as at the reporting date);

(iii) the proportion of such contracts compared to total sales or purchases of the same non-financial item;

(iv) the effect of the PPA on the revenue and expenses during the reporting period, for example what revenue and expenses would have been in the absence of the PPA; and

(v) an indication of the fair value of the contract at the reporting date.

EFRAG Secretariat analysis

13 The EFRAG Secretariat welcomes a principle-based solution. In the view of the EFRAG Secretariat, the scope of a principle-based solution should not be made so narrow that it results, in substance, in a rule-based solution.

14 The EFRAG Secretariat notes the following remarks on the features of non-financial items included in paragraph 9:

(a) The requirements in (a) to (c) do not only relate to characteristics (properties) of the non-financial item but also relate to characteristics (properties) of other aspects like the contract or the market and legal environment;

(b) The requirements in (a) to (c) include some implicit assumptions like that 'the purchaser cannot avoid taking delivery of the non-financial item' that might not be correct and some language like the reference to 'short period following delivery' that is subject to interpretation.

(c) Why is location highlighted as a relevant feature? We acknowledge that if a renewable plant was located somewhere else the energy output would be different but, unlike weather, once the plant is built, there is no variability on this aspect.

(d) The legal conditions of the market the non-financial item is transacted in are not what requires the purchaser to take delivery of the non-financial item, but the clauses set out in the PPA and agreed by the purchaser and the seller;

(e) The market structure **together with the features of the non-financial item** require any quantities of the item that an entity is unable to use to be put back in the market (i.e. the market structure alone does not require the entity to put the unused power back into the market). In addition, although not economically efficient, an entity could also store the energy in batteries or discharge it into the ground; and

(f) The IASB staff could specify that an entity is unable to use the non-financial item within the same trading period as the period of delivery rather than within a short period of delivery.

15 The EFRAG Secretariat notes the following observations on the requirements included in paragraph 10 that a contract to buy a non-financial item, with the characteristics described in paragraph 9, must satisfy to be considered 'own-use':

(a) The relationship between 1010(a) and 1010(b) is unclear. Are the two requirements concurrent or a contract can satisfy one of them to be considered 'own-use'.

(b) What does it mean that the quantities supplied of the non-financial should be consistent with an entity's expected 'own-use' requirements? Is it consistent as long as the 'own-use' requirements are not lower than the quantities included in the contract? How consistency should be measured (i.e. on a yearly basis, over the life of the contract…)?

(c) If a contract starts during a period of low consumption, does the contract automatically fail this requirement? Also, an entity may satisfy this requirement on an individual PPA basis but it does not satisfy it if it has a few PPAs and consider all of them together. In addition, if there is a business combination, it does not make

sense to compare the volume of the non-financial item used by the entity with the volume delivered since the inception of the contract.

16 The EFRAG Secretariat notes the following remarks on the potential disclosure requirements:

(a) The price agreed in the PPA might be considered sensitive information.

(b) PPAs are most often bespoke contracts. The agreed price is often a result of contract specific properties. Information on price is of little relevance if not presented together with all relevant contract specific properties. In this regard, some qualitative information may be relevant for users to understand the characteristics and purpose of the contract.

(c) By market price, is it referring to the spot price? If so, it may not be very relevant information as there are usually different spot prices for different trading slots and the differences could be relevant (i.e. the spot price at night might be different than the spot price in the morning).

(d) An indication of the fair value of the PPA at the reporting date might be complex to provide (as complex as measuring the PPA at fair value).

(e) PPAs are generally unique, bilaterally negotiated and agreed contracts. If a contract related to all or a proportion of power produced by a power producing facility but capped to the actual consumption of the purchaser, the contract then would likely fail to meet the characteristics determined by the nature of the non-financial item. Would potential new disclosure requirements be required for such contracts?

17 The EFRAG Secretariat has developed an alternative principle-based model that could deal with the issue of physical PPAs (see more details here). This model is based on applying the 'own-use' requirements to a portion of the contract and the scope goes beyond PPAs. The EFRAG Secretariat plans to gather views from its constituents on the feasibility of this alternative model.

Questions for EFRAG FR TEG-CFSS

18 Do EFRAG FR TEG-CFSS members agree with the potential amendments proposed by the IASB staff in paragraphs 9, 10 and 12 above?

19 Do EFRAG FR TEG-CFSS members consider that there are other potential alternative amendments that the IASB should examine?

Application of hedge accounting requirements

The issue

20 As part of the scope discussions, IASB staff noted that vPPAs give rise to similar accounting questions related to the specific characteristics of the non-financial items and related market structure as noted in the submission paper to IFRS IC related to physical PPAs and decided to include the application of the hedge accounting requirements in the narrow-scope standard setting project.

21 When considering the requirements for the cash flow hedge accounting, the IASB staff noted that due to the specific characteristics of the non-financial items and specifically due to the variability of the volume component, additional considerations are necessary to appropriately reflect the economic substance of the vPPAs for both producers and off-takers of the non-financial items. Issues related to the application of the hedge accounting are summarised below.

Requirements to have a cash flow hedge

22 To quality for hedge accounting under IFRS 9 the hedging relationship must consist of the qualified hedged item and qualified hedging instrument. There should be a formal designation and documentation of this relationship and hedging relationship must be effective.

23 As it relates to the hedging instrument qualification, IASB staff does not highlight any specific difficulties related to the vPPAs and conclude that both the buyer and the seller can designate a vPPA as qualifying hedging instrument.

24 As it relates to the hedged item, IASB staff reminds that an entity may designate an item in its entirety or a component of an item, which can include (i) a risk component, (ii) one or more selected contractual cash flows or (iii) a component of nominal amount either as a proportion or as a layer.

25 However, for a forecast transaction to qualify as a hedge item, the identified transaction (or a component thereof) must be highly probable (para 6.3.3 of IFRS 9). IASB staff acknowledges that this requirement will not reflect the economic position of an entity after contracting a vPPA because the designated quantity (in the hedged item) needs to be fixed upon inception and remain fixed for the designated period, whereas the actual non-financial item sold or purchased would vary due to its specific characteristics.

26 Similar analysis is made for the effectiveness considerations, as the forecasted sales or the forecasted purchases designated as hedged items must prospectively achieve an offset

with the designated hedging instrument. In presence of variable volumes such economic relationship requirement may not be met.

Potential solution

27 IASB staff emphasises its desire to keep any amendments within the narrow scope previously discussed and limit any unintended consequences.

28 Therefore, proposed potential amendments to the hedge accounting requirements include the following items:

(a) Designation of the proportion (including 100%) of the total but uncertain volume of sales or purchases of non-financial items with particular characteristics (as outlined in paragraph 9);

(b) Designation of the volumes that are expected but not necessarily highly probable, to the extent that such volume is mirrored by the vPPA. Does not apply to any other terms of the vPPA (only volumes);

(c) For the purpose of assessing the economic relationship, differences in assumptions between the hedged item and hedging instrument with regard to the expected vs highly probable volume do not cause the break in the economic relationship.

(d) No additional disclosures are deemed necessary, considering current requirements of IFRS 7.

Potential implications

29 IASB staff further emphasises that even with proper ringfencing of the amendments, there might be unintended consequences to other hedging relationships.

30 Even when applying hedge accounting, the outcome in the financial statements might still differ between the physical PPAs and vPPAs because of the underlying differences in the contractual terms of the instruments.

31 The proposed amendments could be deemed to lack the appropriate level of discipline normally required for hedge accounting and therefore be subject to manipulation. IASB staff however considers this risk to be mitigated to the large extent by the requirement for the hedging relationship to be consistent with the entity's risk management objective.

EFRAG Secretariat analysis

32 The EFRAG Secretariat welcomes the efforts of IASB staff to provide a principal-based and relatively fast solution to the issues identified.

33 The description of the economic purpose and set up on pages 20 and 21 of agenda paper 01-03 are considered to be non-exhaustive examples as in practice vPPAs can vary. For instance, the IASB considers either the specified proportion of total volume OR the notion of maximum volume referenced in the vPPA. The EFRAG Secretariat notes that it may be both (proportion AND maximum volume within the same contract).

34 The EFRAG Secretariat notes that on page 23 of agenda paper 01-03 in the Assessments section, the first bullet point references vPPAs and the uncertainty related to the nominal amount of those. However, the section is dedicated to the hedged item and vPPAs are hedging instruments, therefore, it is not clear why the discussion is geared towards the characteristics of vPPAs.

35 Further, on page 23 of agenda paper 01-03 in the Staff note section, the last bullet point "Such as designation and may …" should probably be "Such designation may …"

36 On page 24 of agenda paper 01-03 the Staff note includes the statement "Typically, the volume assumptions of vPPA for fair value measurement of these derivatives are based a probability of 50% (P50 estimate)." This remark deviates from the requirements in paragraph 22 of IFRS 13. (Does only work if there is no correlation between volumes and market prices. This is typically NOT the case for vPPAs.)

37 On page 26 of agenda paper 01-03 the first paragraph includes: ''Therefore, we think any amendments to the hedge accounting requirements need to be considered very carefully even if they are only applied to hedging relationships in which particular instruments are designated as the hedging instrument <u>or hedged item</u>''. It is not expected that a vPPA may be designated as hedged item.

38 On page 27 of agenda paper 01-03, the EFRAG Secretariat notes that the first bullet point is the subset of the alternative model proposed as a solution by EFRAG Secretariat. Further, it is desired to clarify that this paragraph relates to the hedged item.

39 On page 27 of agenda paper 01-03, the second bullet point is deemed helpful, however does not solve the problem as the vPPA covers all volumes including those being unexpected / with low probability.

40 On page 27 of agenda paper 01-03, the third bullet point would not be a faithful representation of the actual economic relationship. This proposal is not supported by the EFRAG Secretariat.

41 Page 28 of agenda paper 01-03: The EFRAG Secretariat do not support in-substance rule-based exemptions to the principle-based solutions in IFRS 9. Solutions applicable to

hedging of power purchases or sales should be solutions applicable to all purchases and sales.

Alternative solution

42 The EFRAG Secretariat's alternative model is aiming to provide a principal-based solution to the issues noted above triggered by vPPAs as well as other load following swaps.

43 The alternative model's starting point is to focus on the main criteria for a hedged item in a cash flow hedge being an exposure to a variability in cash flows that could affect profit or loss.

44 The EFRAG Secretariat argues that the current requirement for such future transactions to be highly probable, breaches the current logic of IFRS 9, limits the application of the hedge accounting and does not reflect the economic reality and risk management practices of the companies as even low-probability transaction could affect profit or loss.

45 Moreover, removing the requirement for a hedged item to be a highly probable future transaction should not, in itself, change the ultimate outcome of the hedge accounting, because any ineffectiveness would still be accounted for in accordance with current IFRS 9 requirements.

46 This is because the effectiveness / ineffectiveness assessment is done based on the economic relationship between the hedged item and hedging instrument. The characteristics of the hedged item, by itself, should not create the limitation to the hedge accounting before the economic relationship is even considered.

47 The EFRAG Secretariat suggests that the proposed alternative solution will allow to faithfully reflect the economic reality of the vPPAs and other (complex) derivative instruments following the principles of IFRS 9 without the need of narrow-scope amendments every time a technology evolves or market conditions change.

48 A detailed proposed alternative model is included in the Appendix 2 below.

Questions for EFRAG FR TEG-CFSS

49 Do EFRAG FR TEG-CFSS members agree with the potential amendments proposed by the IASB staff in paragraph 28 above?

50 Do EFRAG FR TEG-CFSS members consider that there are other potential alternative amendments that the IASB should examine?

Appendix 1: Summary of discussions of the joint EFRAG FRB and EFRAG FR TEG meeting held on 19 December 2023

1 Objective of the meeting was to gather members' views on possible amendments to IFRS 9 to facilitate the accounting for Power Purchase Agreements. Agenda paper 08-02 (summary of IASB staff's paper) and Agenda paper 08-03 (EFRAG's alternative model) were presented and discussed by EFRAG FRB and FR TEG members.

2 Members generally agreed with the direction of travel taken by the IASB.

3 Members generally considered that the alternative model developed by the EFRAG Secretariat was complex and representing a new approach to portion of contracts.

4 Some members pointed at the complexities of amending hedge requirements to achieve a principle-based solution that improves the accounting for virtual PPAs (vPPAs) and is well received by stakeholders. A member noted that at some stage the project may need to be split (i.e. a project for physical PPAs and another project for virtual PPAs).

5 A few members challenged the characteristic included in paragraph 26(b) of the agenda paper 08-02 identified by the IASB to ringfence the scope of the project.

6 A few members considered that the approach 3 specified in agenda paper 08-02 (i.e. rules-based exception) could be a fallback solution if the IASB cannot achieve a rapid principle-based solution.

7 A few members considered that the US-GAAP approach to account for PPAs could also be a solution.

8 A few members suggested that the EFRAG Secretariat should collect feedback from constituents on the EFRAG Secretariat's alternative model and on the approaches to be developed by the IASB. A member suggested that the EFRAG Secretariat could carry out field testing activities.

9 A member with a user background indicated that fair value measurements of PPAs do not provide useful information per se.

10 A member considered that it would be helpful for the EFRAG Secretariat to develop an illustrative example that shows how EFRAG's alternative model works in practice.

11 A member did not support the current accounting practice with regard to PPAs as it creates volatility in the profit and loss account even before the consumer acquires power.

Appendix 2: EFRAG Secretariat's alternative model on vPPAs

(For condensed content see between paragraph 11 and 12 below)

1 To make the best possible accounting for vPPAs and other load following swaps there is a need to change the regulation of the hedged item in IFRS 9. This will have as a general consequence that a number of new hedging relationships will be possible. The controlling factor is the disclosure requirements in IFRS 7 and the fact that all ineffectiveness will be recognised in profit or loss when incurred.

2 On hedged item - IFRS 9.6.3.1 lists the following possible hedged items:

(a) Items recognised in the statement of financial position:

(i) A recognised asset

(ii) A recognised liability

(iii) A net investment in a foreign operation

(b) Items not recognised in the statement of financial position:

(i) An unrecognised firm commitment

(ii) A forecast transaction

Note: A recognised firm commitment will be either an asset or a liability, thus no firm commitment is excluded from being a hedged item based on IFRS 9.6.3.1

3 A firm commitment is defined as a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates. A forecast transaction is defined as an uncommitted but anticipated future transaction. Thus, IFRS 9.6.3.1 excludes as possible hedged items:

(a) Committed future transactions that are not firm commitments and

(b) Uncommitted future transactions that are not anticipated.

4 The meaning of anticipated as either "expected" or "probable". Is not clear. When anticipated and anticipates is used elsewhere in IFRS 9 (see IFRS 9.B4.1.4C Example 5) our understanding is that the meaning of anticipated is expected (and anticipates is expects).

5 With the current requirement in IFRS 9.6.3.3 (that a future transaction must be highly probable) the discussion of the meaning of anticipated in the definition of a forecast transaction is of little consequence. However, considering the regulation in IFRS 9.6.5.12, the interpretation "probable" might be the appropriate interpretation. It does not ease the

readability of IFRS 9 if a word used in two different locations in the standard holds two different meanings.

6 There seems to be a circular reference in the first part of IFRS 9.6.5.12. The first part of IFRS 9.6.5.12 reads "When an entity discontinues hedge accounting for a cash flow hedge (see paragraphs 6.5.6 and 6.5.7(b)) it shall account for the amount that has been accumulated in the cash flow hedge reserve in accordance with paragraph 6.5.11(a) as follows:" (our emphasis). IFRS 9.6.5.7(b) reads "paragraph 6.5.12 when it discontinues hedge accounting for cash flow hedges." Our proposal will be to delete the stroked through text.

7 If, in the definition of firm commitment, the use of specified (as in specified quantity, specified price and specified future date or dates) is to have a meaning it must exclude a described variable quantity, price or date or dates.

8 Thus, committed future transactions that are not firm commitments include contracts to buy or sell at spot prices, to buy or sell a variable volume and to buy or sell on a non-predetermined date or dates. Volumes under such contracts cannot be hedged items.

9 Why do IFRS 9 limit which possible future transactions that may qualify as hedged items? This is a good question. A forecast transaction can only be designated as a hedged item in a cash flow hedge. The criteria for a hedged item in a cash flow hedge is that it includes an exposure to variability in cash flows that could affect profit or loss. Whether a future transaction is highly probable to occur or not does not affect whether it could affect profit or loss. Even a very low probability future transaction could affect profit or loss.

10 The most probable reason why the requirement of highly probable has been included is that when a future transaction is highly probable then this will increase the potential effectiveness of a fixed volume hedging instrument. But effectiveness is a requirement for the hedge relation (the relationship between the hedged item and the hedging instrument) and should not be a requirement for the hedged item.

11 Thus, conceptually it is the position of the EFRAG Secretariat that IFRS 9 should not require any probability as a condition for a future transaction to be a hedged item in a cash flow hedge.

Proposed amendments to IFRS 9

(New text is underlined and deleted text is stroked through.)

Appendix A

Forecast transaction

An identifiable ~~uncommitted but anticipated~~ future transaction that is not a firm commitment.

Paragraph 6.3.3 Deleted

Paragraph 6.3.4

An aggregated exposure that is a combination of an exposure that could qualify as a hedged item in accordance with paragraph 6.3.1 and a derivative may be designated as a hedged item (see paragraphs B6.3.3–B6.3.4). ~~This includes a forecast transaction of an aggregated exposure (ie uncommitted but anticipated future transactions that would give rise to an exposure and a derivative) if that aggregated exposure is highly probable and, once it has occurred and is therefore no longer forecast, is eligible as a hedged item.~~

Paragraph 6.3.5

For hedge accounting purposes, only assets, liabilities, firm commitments or ~~highly probable~~ forecast transactions with a party external to the reporting entity can be designated as hedged items. Hedge accounting can be applied to transactions between entities in the same group only in the individual or separate financial statements of those entities and not in the consolidated financial statements of the group, except for the consolidated financial statements of an investment entity, as defined in IFRS 10, where transactions between an investment entity and its subsidiaries measured at fair value through profit or loss will not be eliminated in the consolidated financial statements.

Paragraph 6.3.6

However, as an exception to paragraph 6.3.5, the foreign currency risk of an intragroup monetary item (for example, a payable/receivable between two subsidiaries) may qualify as a hedged item in the consolidated financial statements if it results in an exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation in accordance with IAS 21 The Effects of Changes in Foreign Exchange Rates. In accordance with IAS 21, foreign exchange rate gains and losses on intragroup monetary items are not fully eliminated on consolidation when the intragroup monetary item is transacted between two group entities that have different functional currencies. In addition, the foreign currency risk of a ~~highly probable~~ forecast intragroup transaction may qualify as a hedged item in consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

Paragraph 6.5.2(b)

cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability (such as all or some future interest payments on variable-rate debt) or a ~~highly probable~~ forecast transaction, and could affect profit or loss.

Paragraph 6.5.12

When an entity discontinues hedge accounting for a cash flow hedge (see paragraphs 6.5.6 ~~and 6.5.7(b)~~) it shall account for the amount that has been accumulated in the cash flow hedge reserve in accordance with paragraph 6.5.11(a) as follows:

(a) if the occurrence or non-occurrence of the future transaction is still identifiable ~~hedged future cash flows are still expected to occur~~, that amount shall remain in the cash flow hedge reserve until the future cash flows occur or until paragraph 6.5.11(d)(iii) applies. When the future cash flows occur, paragraph 6.5.11(d) applies.

(b) if the occurrence or non-occurrence of the future transaction is ~~hedged future cash flows are~~ no longer identifiable ~~expected to occur~~, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment (see IAS 1). ~~A hedged future cash flow that is no longer highly probable to occur may still be expected to occur.~~

Heading before paragraph 6.8.4

Deleted

Paragraph 6.8.4

Deleted

Paragraph B6.3.3(a)

from a forecast transaction an entity may hedge a given quantity of highly probable coffee purchases in 15 months' time against price risk (based on US dollars) using a 15-month futures contract for coffee. The given quantity of highly probable coffee purchases and the futures contract for coffee in combination can be viewed as a 15-month fixed-amount US dollar foreign currency risk exposure for risk management purposes (ie like any fixed-amount US dollar cash outflow in 15 months' time).

Paragraph B6.3.5

Paragraph 6.3.6 states that in consolidated financial statements the foreign currency risk of a ~~highly probable~~ forecast intragroup transaction may qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect consolidated profit or loss. For this purpose an entity can be a parent, subsidiary, associate, joint arrangement or branch. If the foreign currency risk of a forecast intragroup transaction does not affect consolidated profit or loss, the intragroup transaction cannot qualify as a hedged item. This is usually the case for royalty payments, interest payments or management charges between members of the same group, unless there is a related external transaction. However, when the

foreign currency risk of a forecast intragroup transaction will affect consolidated profit or loss, the intragroup transaction can qualify as a hedged item. An example is forecast sales or purchases of inventories between members of the same group if there is an onward sale of the inventory to a party external to the group. Similarly, a forecast intragroup sale of plant and equipment from the group entity that manufactured it to a group entity that will use the plant and equipment in its operations may affect consolidated profit or loss. This could occur, for example, because the plant and equipment will be depreciated by the purchasing entity and the amount initially recognised for the plant and equipment may change if the forecast intragroup transaction is denominated in a currency other than the functional currency of the purchasing entity.

Paragraph B5.5.2

The purpose of a cash flow hedge is to defer the gain or loss on the hedging instrument to a period or periods in which the hedged expected future cash flows affect profit or loss. An example of a cash flow hedge is the use of a swap to change floating rate debt (whether measured at amortised cost or fair value) to fixed-rate debt ~~(ie a hedge of a future transaction in which the future cash flows being hedged are the future interest payments)~~. Conversely, a forecast purchase of an equity instrument that, once acquired, will be accounted for at fair value through profit or loss, is an example of an item that cannot be the hedged item in a cash flow hedge, because any gain or loss on the hedging instrument that would be deferred could not be appropriately reclassified to profit or loss during a period in which it would achieve offset. For the same reason, a forecast purchase of an equity instrument that, once acquired, will be accounted for at fair value with changes in fair value presented in other comprehensive income also cannot be the hedged item in a cash flow hedge.

Paragraph B6.5.27

A part of a hedging relationship is discontinued (and hedge accounting continues for its remainder) when only a part of the hedging relationship ceases to meet the qualifying criteria. For example: ~~(a)~~ on rebalancing of the hedging relationship, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of the hedging relationship (see paragraph B6.5.20); hence, hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship~~; or (b) when the occurrence of some of the volume of the hedged item that is (or is a component of) a forecast transaction is no longer highly probable, hedge accounting is discontinued only for the volume of the hedged item whose occurrence is no longer highly probable. However, if an entity has a history of having designated hedges of forecast transactions and having subsequently determined that the forecast transactions are no longer expected to occur, the entity's ability to predict forecast transactions accurately is called into question when predicting similar forecast~~

~~transactions. This affects the assessment of whether similar forecast transactions are highly probable (see paragraph 6.3.3) and hence whether they are eligible as hedged items.~~

Paragraph B6.6.9

For a cash flow hedge of a net position, the amounts determined in accordance with paragraph 6.5.11 shall include the changes in the value of the items in the net position that have a similar effect as the hedging instrument in conjunction with the fair value change on the hedging instrument. However, the changes in the value of the items in the net position that have a similar effect as the hedging instrument are recognised only once the transactions that they relate to are recognised, such as when a forecast sale is recognised as revenue. For example, an entity has a group of ~~highly probable~~ forecast sales in nine months' time for FC100 and a group of ~~highly probable~~ forecast purchases in 18 months' time for FC120. It hedges the foreign currency risk of the net position of FC20 using a forward exchange contract for FC20. When determining the amounts that are recognised in the cash flow hedge reserve in accordance with paragraph 6.5.11(a)–6.5.11(b), the entity compares:

(a) the fair value change on the forward exchange contract together with the foreign currency risk related changes in the value of the highly probable forecast sales; with

(c) the foreign currency risk related changes in the value of the highly probable forecast purchases.

However, the entity recognises only amounts related to the forward exchange contract until the ~~highly probable~~ forecast sales transactions are recognised in the financial statements, at which time the gains or losses on those forecast transactions are recognised (ie the change in the value attributable to the change in the foreign exchange rate between the designation of the hedging relationship and the recognition of revenue).

Paragraph B6.6.10

Similarly, if in the example the entity had a nil net position it would compare the foreign currency risk related changes in the value of the ~~highly probable~~ forecast sales with the foreign currency risk related changes in the value of the ~~highly probable~~ forecast purchases. However, those amounts are recognised only once the related forecast transactions are recognised in the financial statements.

Effects on accounting for vPPAs

12 With these amendments vPPAs that are load following to the producer becomes effective hedging instruments for the producers. Unless the load following feature in the vPPA is changed to the consumption load of the purchaser the vPPA will remain a very ineffective hedging instrument for the purchasing entity and the hedge relationship is not expected to

pass the requirement in IFRS 9.6.4.1(b) and (c). If passing, there will be a lot of recognised ineffectiveness.