EFRAG Secretariat: Didrik Thrane-Nielsen,
Aleksandra Sivash, Juan José Gómez

Power Purchase Agreements: Disclosures and transition requirements

Issues Paper

Objective

1 This issues paper provides a summary of the IASB's tentative decisions to be included in the Exposure Draft proposing amendments to the IFRS 7 Financial Instruments: Disclosures and the transition requirements of the proposed amendments to both IFRS 9 Financial Instruments and IFRS 7 and related EFRAG Secretariat analysis. This agenda paper includes references to the IASB Staff Agenda paper 3C 'Proposed disclosure and transition requirements' for the 18 March 2024 IASB meeting (Paper 3C).

2 This paper is structured as follows:

A. IASB's tentative decisions on disclosure requirements for entities applying IFRS Accounting Standards

B. IASB's tentative decisions on disclosure requirements for Subsidiaries without Public Accountability

C. EFRAG Secretariat analysis – disclosures

D. Summary of the IASB discussion - disclosures (session of 18 March 2024)

E. IASB's tentative decision on transition requirements

F. EFRAG Secretariat analysis – transition requirements

G. Summary of the IASB discussion – transition requirements (session of 18 March 2024)

H. Questions to the EFRAG FR TEG

IASB's tentative decisions on disclosure requirements for entities applying IFRS Accounting Standards

3 The IASB tentatively decided to propose setting specific disclosure objectives that would require an entity to disclose information that enables users of financial statements to assess the effects of contracts for renewable electricity on:

(a) the entity's financial performance; and

(b) the amount, timing and uncertainty of the entity's future cash flows.

4 The IASB also tentatively decided to propose that an entity be required to disclose - as items of information for all its contracts for renewable electricity:

(a) the terms and conditions of contracts. For example, the contract's duration, type of pricing (including whether they include price adjustment clauses), minimum or maximum quantities, cancellation clauses and whether they include Renewable Energy Credits (RECs).

(b) the net volume purchased or the total volume for which amounts were net-settled for the reporting period, and an explanation of any significant variances in the volume. These entities are also required to disclose the average market price per unit of electricity for the reporting period.

(c) either the fair value of the contracts at the reporting date accompanied by the information required by paragraphs 93(g)–93(h) of IFRS 13, or:

(i) the volume of renewable electricity the entity expects to sell or purchase over the remaining duration of the contracts. This information could be provided as a range for each of the following periods: not later than one year; later than one year and not later than five years; and later than five years.

(ii) the methods and assumptions used in preparing the analysis in (i), including information about changes in those methods and assumptions from the previous period and the reasons for such changes.

IASB's tentative decisions on disclosure requirements for Subsidiaries without Public Accountability (SWOPA)

5 The IASB tentatively decided to propose that an entity within the scope of the prospective Subsidiaries Standard be required to disclose for all its contracts for renewable electricity:

(a) the terms and conditions of contracts. For example, the contract's duration, type of pricing (including whether they include price adjustment clauses), minimum or maximum quantities, cancellation clauses and whether they include RECs.

(b) the net volume purchased or the total volume for which amounts were net-settled for the reporting period, and an explanation of any significant variances in the volume. These entities are also required to disclose the average market price per unit of electricity for the reporting period.

(c) either the fair value of the contracts at the reporting date accompanied by the information required by paragraphs 93(g)-93(h) of IFRS 13, or:

(i) the volume of renewable electricity the entity expects to sell or purchase over the remaining duration of the contracts. This information could be provided as a range for each of the following periods: not later than one year; later than one year and not later than five years; and later than five years.

(ii) the methods and assumptions used in preparing the analysis in (i), including information about changes in those methods and assumptions from the previous period and the reasons for such changes.

EFRAG Secretariat analysis – Disclosures

6 The proposed disclosures are “for all contracts for renewable electricity” (see paragraphs 3 and 4 above). It is however not clear if the disclosure requirements should be applied to vPPAs accounted for at fair-value through profit or loss under current IFRS 9 guidance as the disclosure requirements seems to be tailored to physical PPAs. Moreover, it is unclear if the disclosure requirements should apply to contracts for renewable electricity that are not in the scope of the amendments (the source of production is not nature dependent or the production risk is not substantially borne by the consumer).

7 The EFRAG Secretariat notes that the option of either disclosing the fair value of the contracts at the reporting date or providing the requirements listed in (c)(i) and (ii) might distort the comparability in the financial statements.

8 In order to comply with the disclosure objective stated in paragraph 4(c)(i) above (to assess the effects of the contracts on the amount, timing and uncertainly of the entity’s future cash flows), the EFRAG Secretariat would recommend to require an entity to provide the information about entity’s expected sales or purchases within the time bands, instead of leaving this disclosure optional: to replace “could be provided” by “should be provided”.

9 Considering the length of PPAs, it would be helpful to extend the proposed time bands to add a range “between 5 and 10 years” and replace “beyond 5 years” by “beyond 10 years”.

10 It would be helpful to clarify if the entity needs to disclose its net position of expected sales and purchases, gross position from the point of view of seller or purchaser or both figures (sales and purchases).

11 In relation to the disclosure requirements proposed for the SWOPAs, the EFRAG Secretariat notes that the fair value measurements would often be done at the parent level which would require the Subsidiaries to request information specific to their entity form the parent.

12 Further, for the requirement related to the fair value, in case the contracts are concluded at the parent entity on behalf of various legal entities, the SWOPA might not be able to isolate information relevant only to them or such information may be costly to produce.

13 In parallel, the EFRAG Secretariat gathered feedback on the proposed disclosures within the user community. In general, there was a concern expressed that the narrow scope of the proposed amendments would result in a lopsided prominence given to the (v)PPAs compared to any other significant long-term executory contracts an entity might have. This situation may lead users to believe that, since only the information related to (v)PPAs is disclosed, entity's risks reside only within these agreements.

14 As it relates to the specific disclosure requirements, users questioned the utility of the proposed disclosures and how those might be used by the investors. Members suggested that illustrative examples will be helpful to further assess the usefulness of the proposed disclosures.

15 It was further noted that proposed disclosures specific to (v)PPAs would only be relevant and exploitable if they can be benchmarked to the overall entity's electricity consumption, expenditure, exposure to the risks and the sensitivity (what is the portion of the exposure covered by the (v)PPAs and what is not covered or covered by other means and related sensitivities).

16 Disclosure requirements proposed instead of the fair value disclosure might be misleading because without knowing specific consumption profile it would be impossible to estimate the effects of the (v)PPAs or at least understand if the agreement is favourable or unfavourable to the entity. However, one user noted that disclosures such as the volume of electricity and the duration of the contracts could be helpful from a sustainability perspective and the net zero commitments made by entities.

Summary of the IASB discussion - disclosures (session of 18 March 2024)

17 Some members suggested to incorporate qualitative explanation to allow to reconcile the information provided in the disclosure to the actual results presented in the statement of profit or loss.

18 In regard to SWOPA, one member suggested to not require fair value disclosure as generally it will be something calculated at the group level and not SWOPA level.

IASB's tentative decision on transition requirements

19 The IASB tentatively decided to propose that an entity be required to apply the proposed amendments:

(a) retrospectively for own-use requirements, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, but not to require the entity to restate prior periods to the reflect the application of the proposed amendments.

(b) prospectively for the hedge-accounting requirements. However, during the annual reporting period in which an entity first applies the proposed amendments, the entity would be permitted to alter the designation of hedged items in already-designated cash hedging relationships. Such alterations would not discontinue the hedging relationship.

20 The IASB also tentatively decided:

(a) to exempt an entity from disclosing, for the current period and for each prior period presented, the quantitative information as required by paragraph 28(f) of IAS 8.

(b) to permit early application of the proposed amendments from the date the final amendments are issued and requires an entity that applies the amendments early to disclose that fact; and

(c) to provide no transition relief for first-time adopters.

EFRAG Secretariat analysis

21 The EFRAG Secretariat would like to remind the EFRAG FR TEG members that the proposed Amendments need to be endorsed to be effective in the EU and that the endorsement process, even in "fast track" would require time.

22 Further, the Subsidiaries without Public Accountability Standard is expected to be published in H1 2024 and be effective as of 1 January 2027 with early application possible. If an entity does not early adopt the SWOPA Standard, it defaults to full IFRS disclosure requirements and will need to provide the comparative information only for the information requested by SWOPA standard in the year of the adoption of SWOPA.

Summary of the IASB discussion – transition requirements (session of 18 March 2024)

23 One member suggested to add the proposed effective date in the Exposure Draft.

24 Some members commented on the possibility to include both the proposed effective date and specify what is meant by the early application possibility. One member referred to limited practice of allowing entities to take the application date of the date of the Exposure Draft regardless of when the Amendments are published.

25 Members discussed the possibility to make the Amendments immediately effective vs immediately available and whether the entities will be ready to apply the Amendments immediately.

26 Members discussed the fact that in some jurisdictions there might be additional time needed to ensure the Amendments are endorsed in the jurisdiction and the possibility for the entities to apply the Amendments retrospectively.

27 The discussion concluded that the Exposure Draft will include a question about the effective date to gather feedback from the stakeholders.

Questions to the EFRAG FR TEG:

28 Please provide your comments and considerations with regards to the IASB's tentative decisions on disclosure requirements for entities applying IFRS Accounting Standards (see paragraphs 3 and 4 above).

29 Please provide your comments and considerations with regards to the IASB's tentative decisions on disclosure requirements for Subsidiaries without Public Accountability (see paragraph 5 above).

30 Please provide your comments and considerations with regards to the IASB's tentative decisions on transition requirements and specifically about the possible effective date (see paragraphs 19 and 20 above).