IFRS Accounting

Meeting summary

Accounting Standards Advisory Forum

Date **29 January 2024**
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This document summarises a meeting of the Accounting Standards Advisory Forum (ASAF), a group of nominated members from national organisations and regional bodies involved with accounting standard-setting. The ASAF supports the IFRS Foundation and the International Accounting Standards Board (IASB) in their objectives, and contributes towards the development, in the public interest, of high-quality, understandable, enforceable and globally accepted IFRS Accounting Standards.

ASAF members who attended the meeting*

Region	Members
Africa	Pan African Federation of Accountants (PAFA)
Asia-Oceania (including one at large)	Accounting Regulatory Department, Ministry of Finance PRC (ARD) Accounting Standards Board of Japan (ASBJ) Asian-Oceanian Standard-Setters Group (AOSSG) Korea Accounting Standards Board (KASB)
Europe (including one at large)	Accounting Standards Committee of Germany (ASCG) Autorité des normes comptables (ANC) EFRAG UK Endorsement Board (UKEB)
The Americas	Canadian Accounting Standards Board (AcSB) Financial Accounting Standards Board, United States (FASB) Group of Latin American Accounting Standard-Setters (GLASS)

*All members participated via videoconference.

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Power Purchase Agreements

1. The purpose of this meeting was to obtain ASAF members' views and input on potential amendments to IFRS 9 *Financial Instruments* that would address the accounting challenges for physical and virtual power purchase agreements (PPAs) with regards to the application of:

    (a) the own-use requirements to physical PPAs; and

    (b) the hedge accounting requirements to both physical and virtual PPAs.

Own-use requirements

2. Most of the ASAF members agreed with the general direction of the IASB's project to develop a timely, narrow-scope standard-setting solution for PPAs. The member from the AcSB expressed concerns about making changes to the own-use requirements for physical PPAs because it could result in different accounting treatments for physical and virtual PPAs. He suggested a hedge accounting solution could apply to both physical PPAs that fail the own-use requirements and virtual PPAs.

Scope of proposed amendments—unique characteristics (slide 13)

3. Members shared feedback about some of the specific wording used to describe the characteristics of PPAs. The member from the ASBJ suggested that the IASB specify that the non-financial item to which the characteristics would apply is electricity, while members from the UKEB, AcSB and PAFA questioned using 'weather (and location) […] dependent' as a characteristic because not all sources of renewable energy are weather dependent. The member from EFRAG suggested that it might be more appropriate to refer to the inability of an entity to store electricity at a reasonable cost as opposed to referring to the market structure.

Proposed application guidance (slide 14)

4. Members from UKEB, ARD, EFRAG, GLASS and AOSSG expressed concern about the feasibility of requiring an entity to estimate quantities 'over the life of the contract'.

The member from GLASS suggested the IASB consider a concept of ‘normal capacity’ as the basis for the assessment.

5. The members from EFRAG and AOSSG questioned the need for a ‘bright-line’ retrospective validation test of an entity’s expected usage over the life of the contract.

6. The member from EFRAG also questioned whether the IASB too hastily rejected exploring an alternative standard-setting approach that would allow an entity to apply the own-use requirements to a part of a contract. The member from KASB suggested the IASB instead create a scope exclusion—possibly temporary—from the scope of IFRS 9 for PPAs.

Disclosures (slide 17)

7. Members from the UKEB, ARD, EFRAG and ASBJ questioned whether the costs of disclosing some items of information, particularly about the fair value of the PPA, would outweigh the benefits. Members from EFRAG and ARD raised concerns that the items of information might be commercially sensitive. The member from the ASCG suggested the IASB consider developing risk-based disclosure requirements.

Hedge accounting (slide 27)

8. Members agreed (or did not disagree) with exploring possible solutions that would allow entities to achieve cash flow hedge accounting using a virtual PPA. Members from the AcSB and ASCG asked for confirmation that the proposed hedge accounting solution would also apply to physical PPAs used as hedging instruments.

9. The members from the UKEB, KASB and ARD were concerned about making changes to hedge accounting that could reduce the rigour and discipline required to ‘earn the right’ to apply hedge accounting or might have unintended consequences for the existing hedge accounting model.

10. As an initial reaction, the member from the UKEB could see a possibility in permitting a 'designation of a proportion (including 100%) of the total but uncertain volume of sales or purchases of non-financial items (with particular characteristics).’ The member from EFRAG suggested the IASB consider removing the criterion that the

forecast transaction to be ‘highly probable’ for all cash flow hedging relationships as it is redundant with the effectiveness testing. The member from EFRAG also asked whether the IASB needs to consider similar amendments to IAS 39 *Financial Instruments: Recognition and Measurement*.

Next steps

11. The staff will continue its research and plans to bring a summary to the IASB for discussion at a future meeting.