FASB | IASB Education Meeting

Date	**29 September 2023**
Project	**Power Purchase Agreements**
Topic	**Research Activities**
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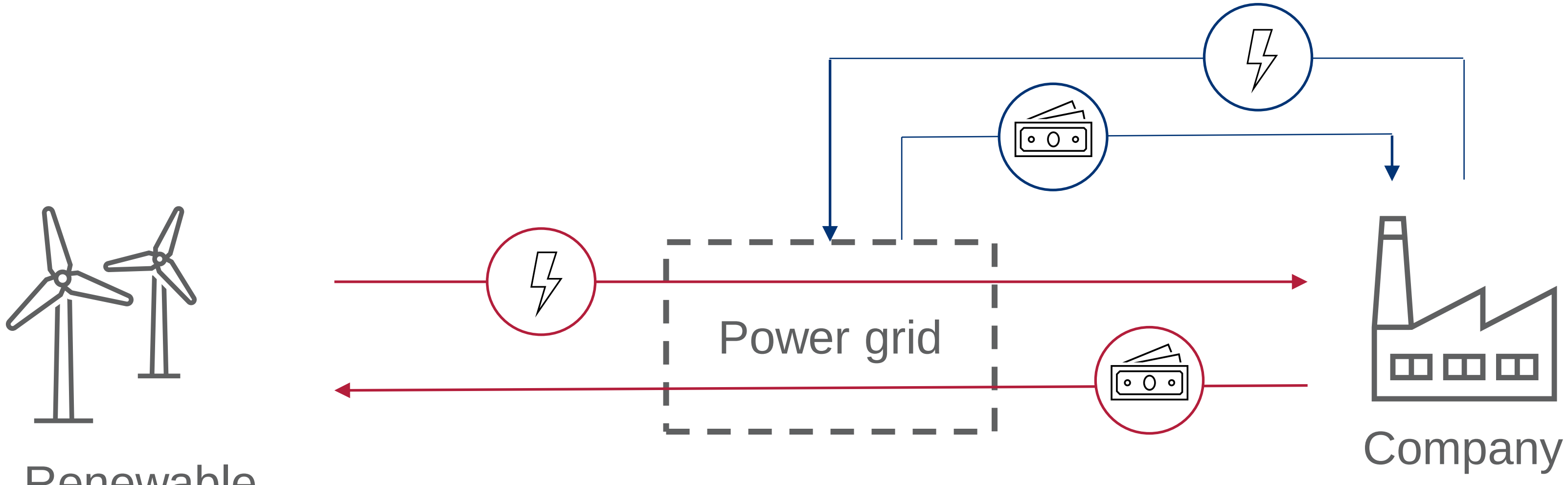
Background on Power Purchase Agreements

Project history

- **June 2023**—the IFRS Interpretations Committee (Committee) discussed a submission (Agenda Paper 2) asking about applying paragraph 2.4 of IFRS 9 (the 'own-use' exception) to physical-delivery contracts to buy renewable energy (physical PPAs).
  - The Committee recommended the IASB consider undertaking a narrow-scope standard-setting project to clarify how entities apply the own-use exception to some physical PPAs.
- **July 2023**—the IASB discussed the Committee's recommendation (Agenda Paper 12A) and tentatively decided to add a project to the work plan to research whether narrow-scope amendments could be made to IFRS 9. The IASB's research will focus on:
  - applying the own-use exception to physical PPAs; and
  - applying the hedge accounting requirements in IFRS 9 using a virtual PPA as the hedging instrument.

IFRS Accounting

Physical power purchase agreements



Renewable power producer

1 Physical PPA

The producer delivers power to the company by crediting their account with the grid.

The company pays a fixed price for the power delivered.

2

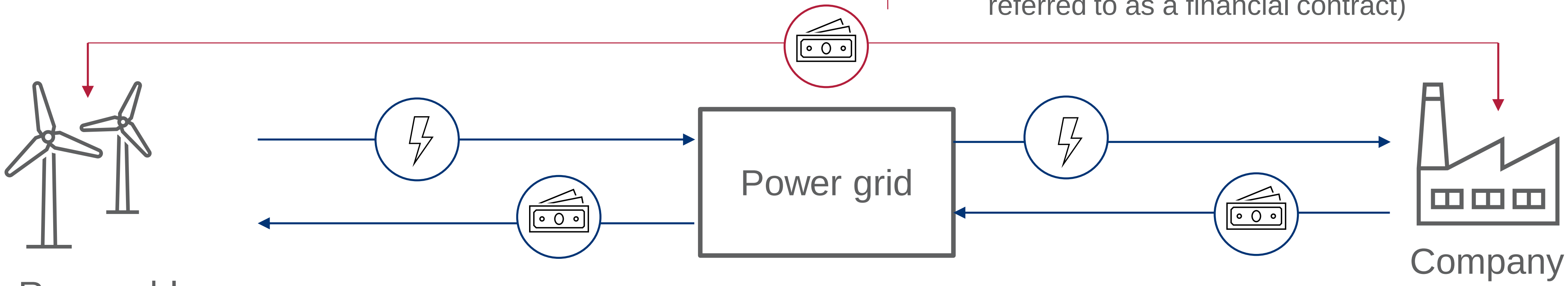
The company sells any unused power to the grid

The company receives the spot price for the power sold

Virtual power purchase agreements

3 **Virtual PPA (contract for differences)**

Net settlement of the difference between the spot and the fixed price of power. (Commonly referred to as a financial contract)



1

The producer delivers power to the grid.

The producer receives the spot price for the power delivered

2

The company buys power from the grid.

The company pays the spot price for the power delivered

Project overview and focus

Focus of research activities

In its discussions in July 2023, IASB members raised two questions of concern when considering narrow-scope standard-setting. Using these questions of concern as a research framework, we ask the following questions to stakeholders:

Questions of concern

A **Prevalence**—is accounting for PPAs a widespread problem that/or expected to materially affect financial statements?

B **Scope**—will it be possible to ringfence a potential solution that don’t disrupt current practice for other contracts or transactions? For example, the IASB discussed, limiting the scope to non-financial items with particular characteristics, such as:

- unpredictability of supply
- the requirement to consume the non-financial item shortly after taking delivery
- forced market sales if consumption cannot be achieved within a short time of taking delivery

IFRS accounting questions

	Questions for physical PPAs	Questions for virtual PPAs
Accounting challenges	Accounting for physical PPAs as either a derivative or an 'own-use' contract depends on the interpretation of paragraph 2.4 of IFRS 9−whether the contract is held for receipt/delivery of a non-financial items in accordance with an entity's expected usage requirements.	Virtual PPAs are typically in the scope of IFRS 9 and are accounted for as derivatives (fair value through profit or loss). Virtual PPAs are used to mitigate the price at which forecasted purchases or sales are contracted at (ie fixing the price at which electricity is purchased). Stakeholders are looking at hedge accounting as a way to reflect the economics. Given the particular characteristics of the non-financial item to be hedged, the requirement for the hedged item to be 'high probable' is not met due to the lack of specificity around the volume and timing of generation of electricity.
Questions to be considered for potential standard-setting	For non-financial items with particular characteristics, how is 'own use' and 'highly probable' requirements assessed with regards to: • the extent to which the market structure in which the non-financial item is transacted is relevant; • the period over which the usage assessment needs to be evaluated or specified; and • the extent to which subsequent transactions in the spot market indicate own usage or not (for example sales)	

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