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## Accounting Standards Advisory Forum meeting

Date	September 2024	
Project	Power Purchase Agreements	
Topic	Exposure Draft <i>Contracts for Renewable Electricity</i> - Update	
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## Purpose of this session

- At a supplementary meeting of the International Accounting Standards Board (IASB) in August, we provided a summary of the feedback we received on the [Exposure Draft \*Contracts for Renewable Electricity\*](#).
- In this paper we summarise the staff recommendations in the September [agenda papers](#) which have been posted on 9 September 2024. This paper was finalised before the September meeting of the IASB and therefore the IASB's tentative decisions made at that meeting might differ from the summary of recommendations in this paper. Please refer to the [September 2024 IASB Update](#) for the summary of the IASB's tentative decisions.
- We also outline the staff's preliminary views with regards to clarifying the hedge accounting proposals on page 7.
- We welcome ASAF members views and questions on any of the matters in this paper.

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## Addressing the feedback received

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## The way forward: Recommendations on scope

We recommend that the IASB finalise the proposed scope of the amendments subject to:

- a) replacing the term 'renewable electricity' with 'nature-dependent electricity' because the latter term better reflects the characteristics of the electricity contracts within the scope of the proposed amendments;
- b) clarifying that nature (or natural forces) controls the source of nature-dependent electricity and whether any electricity can be produced at a given time;
- c) clarifying that contracts for which the contracted amount of the nature-dependent electricity can be settled net or gross are within the scope of the proposed amendments; and
- d) rewording the description of volume risk as part of the own-use amendments to be clearer.

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## The way forward: Recommendations for own-use

We recommend the IASB finalise the proposed requirements on applying paragraph 2.4 of IFRS 9 to a contract to receive nature-dependent electricity. This finalisation is subject to clarifying:

- a) how the proposed requirements for nature-dependent electricity contracts relate to the requirements in paragraphs 2.4–2.7 of IFRS 9.
- b) that an entity takes into account the additional considerations for these electricity contracts only if:
  - i. the specified characteristics expose the entity to the risk of oversupply of electricity during a delivery interval; and
  - ii. the entity does not have the practical ability to avoid selling any oversupply of electricity at the market-determined time, based on the design and operation of the market in which electricity is received.
- c) that an entity would be required to assess whether it will be a net-purchaser over a reasonable amount of time (up to 12 months) when applying the own-use requirements to such a contract. An entity is a net purchaser if it buys enough electricity in the market in which it receives electricity to offset sales of any oversupply in that market.

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## The way ahead: Recommendations for own-use (cont'd)

- d) that an entity making the assessment described in (c) would be required to consider:
  - i. the seasonality of the nature-dependent production source and the seasonality of the entity's business to decide what constitutes 'a reasonable amount of time' (up to 12 months).
  - ii. all reasonable and supportable information, including forward-looking information, at the date of the assessment.
- e) that, on a 12-month rolling basis, an entity would be required to have bought enough electricity in the same market from which the entity received the electricity to offset the entity's sales of any oversupply of electricity.

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## The way ahead: Preliminary views on clarifying hedge accounting

Based on our preliminary analysis of the feedback for hedge accounting we think the proposed hedge accounting requirements could be finalised, subject to:

- clarifying that general hedge accounting requirements of IFRS 9 continues to apply apart from specific requirements;
- providing guidance on designating the hedged item as a variable nominal amount with sufficient specificity considering the timing and magnitude of the forecast transactions designated
- clarifying that forecast purchases are not required to be estimated for each discrete time interval during which electricity could be purchased;
- clarifying that for purposes of assessing the economic relationship, cash flows of the hedged item and hedging instrument are not required to occur simultaneously;

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## The way ahead: Preliminary views on clarifying hedge accounting (cont'd)

- clarifying that for example for a seller who is the generator of electricity spot sales are highly probable by nature through the contractual terms of the hedging instrument which link volumes in the hedging instrument to the spot sales. This may also be the case for spot purchases in cases of gross settled contracts which are used as hedging instruments;
- clarifying how a purchaser determines that the expected volume of electricity to be delivered under the hedging instrument do not exceed the capacity of highly probable forecasted spot purchases;
- including an example to illustrate application of proposed amendments, for example designating variable notional and measurement of ineffectiveness.



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