Staff paper

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IFRS® Interpretations Committee meeting

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Project	**Economic Benefits from Use of a Battery under an Offtake Arrangement (IFRS 16)**
Topic	**Initial consideration**
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Introduction

1. The IFRS Interpretations Committee (Committee) received two submissions about an electricity retailer's accounting for a battery offtake arrangement. The submitters ask whether, applying paragraph B9(a) of IFRS 16 *Leases*, the electricity retailer has the right to obtain substantially all of the economic benefits from use of the battery.

2. The objective of this paper is:

   (a) to provide the Committee with a summary of the matter;

   (b) to present our research and analysis; and

   (c) to ask the Committee whether it agrees with our recommendation not to add a standard-setting project to the work plan.

Structure of this paper

3. This paper includes:

   (a) summary of the submissions;

(b) evidence of 'widespread and material effect';

(c) staff analysis of the applicable requirements in IFRS Accounting Standards;

(d) staff conclusion on whether to add a standard-setting project to the work plan; and

(e) staff recommendation.

4. There are two appendices to this paper:

(a) Appendix A—suggested wording for the tentative agenda decision; and

(b) Appendix B—the submissions.

Summary of the submissions

5. Appendix B to this paper reproduces the two submissions, which provide further details about the fact pattern, the question and the views identified by the submitters. We provide a summary of the submissions below.

The fact pattern

6. In the fact pattern, a ***battery owner*** and an ***electricity retailer*** are registered participants in a gross pool electricity market.[1] The battery owner and the electricity retailer enter into a battery energy storage system agreement (also referred to as a 'battery offtake arrangement' or 'offtake arrangement' in this paper).

7. Under the terms and conditions of the offtake arrangement, the battery owner retains custody of the battery but is contractually obliged to operate the battery in accordance with the electricity retailer's instructions, which cover 100% of the capacity of the battery; the battery cannot be substituted. The electricity retailer's instructions would typically specify whether and when the battery owner charges and discharges the

[1] The submissions describe the gross pool electricity market as being similar to that described in the December 2021 Agenda Decision *Economic Benefits from Use of a Windfarm* (IFRS 16) (December 2021 Agenda Decision). See paragraph 6 of Agenda Paper 5 for the June 2021 Committee meeting for a more detailed description of a gross pool electricity market.

battery. The electricity retailer can instruct the battery owner to charge and discharge the battery throughout the period of use (including multiple times during each day).

8. In a gross pool electricity market, settlement of electricity transactions requires a single registered participant to transact with the market operator. As the battery owner is the registered participant, transactions occurring under the offtake arrangement are settled as follows:

   (a) the electricity retailer pays a fixed amount to the battery owner over the contract duration for the right to use the battery. This fixed amount reflects the size of the battery and the duration of use and is payable regardless of whether the battery is charged or discharged.

   (b) the battery owner operates the battery as per the electricity retailer's instructions by buying and selling electricity and settles those transactions with the market operator, with the resulting cash flows payable to (or receivable from) the electricity retailer. In accordance with the gross pool market structure, all transactions with the market operator occur at the spot price.

   (c) the battery owner and the electricity retailer settle transactions in (a) and (b) periodically net in cash.

9. Therefore, in effect, the battery owner operates the battery and transacts with the market operator on behalf of the electricity retailer and receives a substantially fixed amount for the use of the battery.

The question

10. The submissions note that, applying IFRS 16, the offtake arrangement is, or contains, a lease if it conveys the right to control the use of an identified asset (the battery) for a period of time in exchange for consideration (Appendix A to IFRS 16 and paragraph 9 of IFRS 16). The electricity retailer would have the right to control the use of the battery if it has **both**:

(a) the right to obtain substantially all of the economic benefits from use of the battery (paragraph B9(a) of IFRS 16); **and**

(b) the right to direct the use of the battery (paragraph B9(b) of IFRS 16).

11. Based on the fact pattern, the submissions assume that the electricity retailer has the right to direct the use of the battery and, therefore, the requirement in paragraph B9(b) of IFRS 16 has been met.

12. The question asked in the submissions is whether the electricity retailer has the right to obtain substantially all of the economic benefits from use of the battery.

13. The submissions present two views in response to the question, and these views set out differing arguments regarding:

(a) what the economic benefits from use of the battery are;

(b) whether the electricity retailer has the right to obtain substantially all of those economic benefits; and

(c) how the battery fact pattern in the submissions compares to the windfarm fact pattern in the December 2021 Agenda Decision *Economic Benefits from Use of a Windfarm* (IFRS 16) (December 2021 Agenda Decision).

Evidence of 'widespread and material effect'

14. The purpose of any information requests we send to stakeholders is to understand whether a submission meets the criteria in paragraph 5.16(a) of the IFRS Foundation's *Due Process Handbook*. We consider:

(a) the prevalence of the transaction or fact pattern submitted; and

(b) whether there is widespread diversity in the accounting applied to that transaction or fact pattern that has, or is expected to have, a material effect on those affected.

15. We did not send an information request related to the submissions—and proceeded to analyse the question submitted—for the following reasons:

    (a) the submitters state that:

        (i) there is a growing prevalence of battery storage and offtake arrangements in their jurisdiction. Such arrangements are common in the utility industry and are expected to increase significantly in the near future. There has also been an increase in the use of battery offtake arrangements outside of the utility industry as batteries form a critical part of entities' plans to transition to renewable electricity generation and reduce greenhouse gas emissions.

        (ii) given the tenure of battery offtake arrangement contracts and the volumes of electricity produced, these contracts often, and are increasingly expected to, have material effects on entities' financial statements.

        (iii) different views on the accounting for the arrangements (as summarised in the submissions) are observed in practice. Those different views produce considerably different accounting results that are likely to lead to a significant lack of comparability between financial statements.

    (b) we have had informal conversations with some stakeholders (including for example, accounting firms and preparers) that have confirmed the information in paragraph (a)—including the prevalence of battery offtake arrangements in several jurisdictions. Those stakeholders informally have asked the staff the same question as that raised by the submitters.

16. In our view, the evidence gathered indicates that offtake arrangements are prevalent, and there is diversity in the accounting for the arrangements that has, or is expected to have, a material effect on those affected.

Staff analysis of the applicable requirements in IFRS Accounting Standards

The applicable requirements in IFRS 16

17. IFRS 16 (emphasis added):

    (a) defines a lease as '[a] contract, or part of a contract, that conveys **the right to use an asset** (the underlying asset) for a period of time in exchange for consideration' (Appendix A to IFRS 16).

    (b) states that '… [a] contract is, or contains, a lease if the contract conveys **the right to control the use of an identified asset** for a period of time in exchange for consideration. …' (paragraph 9 of IFRS 16).

18. Paragraphs B9–B31 of IFRS 16 set out application guidance regarding the right to control the use of an identified asset. Paragraph B9 states:

> To assess whether a contract conveys the right to control the use of an identified asset (see paragraphs B13–B20) for a period of time, an entity shall assess whether, throughout the period of use, the customer has both of the following:
>
> (a) the right to obtain substantially all of the economic benefits from use of the identified asset (as described in paragraphs B21–B23); and
>
> (b) the right to direct the use of the identified asset (as described in paragraphs B24–B30).

The right to obtain substantially all of the economic benefits from use of the identified asset

19. Paragraph B21 of IFRS 16 states:

> To control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use (for example, by having exclusive use of the asset throughout that period). A customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, holding or sub-leasing the asset. The economic benefits from use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits from using the asset that could be realised from a commercial transaction with a third party.

20. Paragraph BC118 of the Basis for Conclusions on IFRS 16 explains that:

> … a customer should consider benefits relating to the use of the asset (for example, renewable energy credits received from the use of an asset or by-products resulting from the use of an asset).

The right to direct the use of the identified asset

21. Paragraph B24 of IFRS 16 states:

> A customer has the right to direct the use of an identified asset throughout the period of use only if either:
>
> (a) the customer has the right to direct how and for what purpose the asset is used throughout the period of use (as described in paragraphs B25–B30); or
>
> (b) the relevant decisions about how and for what purpose the asset is used are predetermined and:
>
> (i) the customer has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) throughout the period of use, without

the supplier having the right to change those operating instructions; or

(ii) the customer designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

22. Paragraphs BC119–BC224 of the Basis for Conclusions on IFRS 16 set out the IASB's rationale regarding the right to direct the use of the identified asset.

How the applicable requirements in IFRS 16 apply to the fact pattern

23. In assessing whether the electricity retailer has the rights described in paragraph 10 of this paper, paragraph 2 of IFRS 16 requires consideration of the terms and conditions of the contract and all relevant facts and circumstances.

The right to obtain substantially all of the economic benefits from use of the battery

24. Paragraph B21 of IFRS 16 (as reproduced in paragraph 19 of this paper) explains what economic benefits from use of an asset might comprise and how a customer could obtain them. An example of an economic benefit is having exclusive use of the asset throughout the period of use. Under the offtake arrangement in the fact pattern, the electricity retailer has the exclusive right to use the entire capacity of the battery throughout the duration of the arrangement. As stated in paragraph 8(a) of this paper, the electricity retailer pays for use of the battery regardless of whether the battery is charged or discharged.

25. One of the considerations in the submissions relates to determining the 'primary output' of the use of the battery. The battery is used to *store* electricity that is purchased from the grid and which can be sold back to the grid at a later point. The

battery, therefore, can be viewed as akin to a pipeline or a warehouse, and the economic benefit from its use is the ability to store electricity.

26. As described in the fact pattern (see paragraph 7 of this paper), the electricity retailer has the right to direct the battery owner as to whether and when to charge and discharge the battery. That right provides the electricity retailer with the economic benefits derived from the battery storage—for example, the ability to profit from the price differential between when the electricity is purchased (stored) and sold (released to the grid).

27. We disagree with the argument set out in View 2 of each submission that the primary output (and, therefore, the primary economic benefit) of the use of the battery is the *electricity* itself, or its underlying electrons. A battery cannot generate electricity in its own right. Similar to a pipeline or a warehouse, a battery has value because of its storage capacity and ability to receive and release the items to be stored. The stored items themselves are neither the output nor economic benefits.

28. The submissions do not identify any other economic benefits from use of the battery.

29. In summary, the economic benefits from use of the battery are derived from its storage capability and capacity. The electricity retailer has the exclusive right (i) to use the entire capacity of the battery throughout the period of use (for the duration of the arrangement) and (ii) to direct the battery owner as to whether and when to charge and discharge the battery. Those rights provide the electricity retailer with the economic benefits derived from the battery storage. Therefore, based on our analysis applying paragraph B21 of IFRS 16 to the fact pattern, we conclude that the electricity retailer has the right to obtain substantially all of the economic benefits from use of the battery.

Alternative view—combining or separating contracts

30. Submission 2 (in View 2) raises a question about whether the battery fact pattern involves two separate transactions that should be considered separately rather than

together. The two identified transactions are (i) the offtake arrangement and (ii) the electricity sale and purchase transactions.

31. Paragraph B2 of IFRS 16 states that in applying that Standard, 'an entity shall combine two or more contracts entered into at or near the same time with the same counterparty (or related parties of the counterparty), and account for the contracts as a single contract' if at least one of the criteria in that paragraph is met.

32. View 2 in Submission 2 sets out an argument that, applying paragraph B2 of IFRS 16, the two transactions identified in paragraph 30 of this paper do not meet the criteria to be combined because they:

    (a) *are with different counterparties.* The offtake arrangement is between the electricity retailer and the battery owner, whereas the electricity sale and purchase transactions are between the battery owner and the market operator.

    (b) *are not entered into at the same time.*

33. We disagree with this analysis. The question asked in this matter is from the point of view of the electricity retailer and whether it has the right to obtain substantially all of the economic benefits from use of the battery. The electricity retailer considers the contract it has entered into, which is the battery offtake arrangement. The electricity retailer is not a party to the electricity sale and purchase transactions between the battery owner and the market operator and, therefore, does not have another contract to consider along with the offtake arrangement. Furthermore, the battery owner enters into sale and purchase transactions at spot and only in accordance with the electricity retailer's instructions. Therefore, in our view, the requirements in paragraph B2 of IFRS 16 are not applicable to the fact pattern.

The right to direct the use of the battery

34. As stated in paragraph 11 of this paper, the submissions assume the electricity retailer has the right to direct the use of the battery—that is, the criterion in paragraph B9(b) of IFRS 16 is met. Therefore, we have not analysed whether, in the fact pattern

described, the electricity retailer has the right to direct the use of the battery and, consequently, whether the offtake arrangement is, or contains, a lease.

35. However, we note that in determining whether the electricity retailer has the right to direct the use of the battery, it considers the terms and conditions of the arrangement and all relevant facts and circumstances. For example, the fact pattern explains that, under the offtake arrangement, the electricity retailer has the exclusive right to instruct the battery owner to charge and discharge the battery. The battery owner does not make those decisions independently, and no other parties have the right to instruct the battery owner.

Consideration of the December 2021 Agenda Decision

36. As noted in paragraph 13(c) of this paper, the submissions raise a question about how the battery fact pattern in the submissions compares to the windfarm fact pattern in the December 2021 Agenda Decision.

Summary of the December 2021 Agenda Decision

37. In the December 2021 Agenda Decision, based on the windfarm fact pattern, the Committee observed that:

    (a) the economic benefits from use of the windfarm include the electricity it produces (as its primary output) and the renewable energy credits (as a by-product or other economic benefit from use of the windfarm).

    (b) although the retailer has the right to obtain the renewable energy credits (which represent a portion of the economic benefits from use of the windfarm), the retailer does not have the right to obtain substantially all of the economic benefits from use of the windfarm because it has no right to obtain any of the electricity the windfarm produces throughout the period of the agreement.

38. Therefore, the Committee concluded that the retailer does not have the right to obtain substantially all of the economic benefits from use of the windfarm. Consequently, the agreement does not contain a lease.

Comparison of the battery fact pattern in the submissions to the windfarm fact pattern in the December 2021 Agenda Decision

39. The fact patterns in the submissions and the December 2021 Agenda Decision differ in several key respects:

    (a) **the function and economic benefits of the identified asset**—a windfarm is designed to generate electricity and, therefore, the economic benefits include the electricity created through that generation and the renewable energy credits. In contrast, a battery is designed to store and discharge electricity as required. A battery cannot generate electricity in its own right. The economic benefits of a battery are derived from use of its storage capacity throughout the duration of the arrangement.

    (b) **the rights of the electricity retailer under the contract**—under the contractual terms of the agreement in the windfarm fact pattern, the electricity retailer has no right to obtain, or obligation to purchase, any of the electricity the windfarm produces throughout the period of the agreement. In contrast, under the contractual terms of the agreement in the battery fact pattern, the electricity retailer has the exclusive right to use the entire storage capacity of the battery throughout the duration of the arrangement.

40. We observe that the structure of the market (a gross pool market) in both the windfarm and battery fact patterns is not determinant to the analysis. Rather, it is the contractual rights to use the identified assets that are relevant to the analysis—whether in a gross pool or other type of market.

41. Based on our analysis, the battery and windfarm fact patterns—and the rights of the electricity retailer under the contract in each fact pattern—are not the same. Accordingly, conclusions about whether the electricity retailer has the right to obtain

substantially all of the economic benefits of the identified asset in each fact pattern will not necessarily be the same. In each fact pattern, an entity considers the terms and conditions of the contract and all the facts and circumstances, as required by paragraph 2 of IFRS 16.

Staff conclusion

42. Based on our analysis in paragraphs 17–41 of this paper, we conclude that the principles and requirements in IFRS 16 provide an adequate basis to determine whether, under the battery offtake arrangement described in the fact pattern, the electricity retailer has the right to obtain substantially all of the economic benefits from use of the battery.

Staff conclusion on whether to add a standard-setting project to the work plan

43. Paragraph 5.16 of the IFRS Foundation *Due Process Handbook* states that the Committee decides to add a standard-setting project to the work plan only if all of the following criteria are met:

    (a) the matter has widespread effect and has, or is expected to have, a material effect on those affected;

    (b) it is necessary to add or change requirements in IFRS Accounting Standards to improve financial reporting—that is, the principles and requirements in IFRS Accounting Standards do not provide an adequate basis for an entity to determine the required accounting;

    (c) the matter can be resolved efficiently within the confines of the existing Standards and the *Conceptual Framework*; and

    (d) the matter is sufficiently narrow in scope that the IASB or the Committee can address it in an efficient manner, but not so narrow that it is not cost- effective

for the IASB or the Committee and stakeholders to undertake the due process required to change a Standard.

44. In our view, as set out in paragraph 16 of this paper (considering the evidence summarised in paragraph 15 of this paper), the criterion set out in paragraph 5.16(a) of the *Due Process Handbook* is met for this matter.

45. Based on the staff conclusion in paragraph 42 of this paper, the criterion in sub-paragraph 5.16(b) of the *Due Process Handbook* is not met. The principles and requirements in IFRS 16 provide an adequate basis for an electricity retailer to determine the required accounting for a battery offtake arrangement and, in particular, whether it has the right to obtain substantially all of the economic benefits from use of the battery.

Staff recommendation

46. Based on our assessment of the work plan criteria in paragraph 5.16 of the *Due Process Handbook*, we recommend that the Committee not add a standard-setting project to the work plan. We recommend that the Committee instead publish a tentative agenda decision that explains how a customer (electricity retailer) applies the requirements in IFRS 16 to the fact pattern described in the submission.

47. Appendix A to this paper sets out suggested wording for the tentative agenda decision. In our view, the suggested tentative agenda decision (including the explanatory material contained within it) would not add or change requirements in IFRS Accounting Standards.[2]

[2] Paragraph 8.4 of the *Due Process Handbook* states: 'Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the agenda decision.'

Questions for the Committee

Questions for the Committee
1. Does the Committee agree with our analysis of the application of the requirements in IFRS 16 to the fact pattern as discussed in paragraphs 17–42 of this paper? 2. Does the Committee agree with our recommendation not to add a standard-setting project to the work plan? 3. Does the Committee have any comments on the wording of the tentative agenda decision as suggested in Appendix A to this paper?

Appendix A—suggested wording for the tentative agenda decision

Economic Benefits from Use of a Battery under an Offtake Arrangement (IFRS 16 *Leases*)

The Committee received requests about how an entity applies the requirements in paragraph B9(a) of IFRS 16—in particular, how an entity determines whether a customer has the right to obtain substantially all of the economic benefits from use of an identified asset. The requests illustrate the question by describing a fact pattern involving a battery offtake arrangement.

Fact pattern

In the fact pattern described in the requests, a battery owner and an electricity retailer are registered participants in a gross pool electricity market.

The battery owner and the electricity retailer enter into a battery offtake arrangement. Under the terms and conditions of the offtake arrangement, the battery owner retains custody of the battery but is contractually obliged to operate it in accordance with the electricity retailer's instructions, which cover 100% of the capacity of the battery; the battery cannot be substituted. The electricity retailer's instructions would typically specify whether and when the battery owner charges and discharges the battery. The electricity retailer can instruct the battery owner to charge and discharge the battery throughout the period of use (including multiple times during each day).

In a gross pool electricity market, settlement of electricity transactions requires a single registered participant to transact with the market operator. As the battery owner is the registered participant, transactions occurring under the offtake arrangement are settled as follows:

a. the electricity retailer pays a fixed amount to the battery owner over the contract duration for the right to use the battery. This fixed amount reflects the size of the

battery and the duration of use and is payable regardless of whether the battery is charged or discharged.

b. the battery owner operates the battery as per the electricity retailer's instructions by buying and selling electricity and settles those transactions with the market operator, with the resulting cash flows payable to (or receivable from) the electricity retailer. In accordance with the gross pool market structure, all transactions with the market operator occur at the spot price.

c. the battery owner and the electricity retailer settle transactions in (a) and (b) periodically net in cash.

Paragraph 9 of IFRS 16 states that 'a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration'. Applying paragraph B9 of IFRS 16, to assess whether a contract conveys the right to control the use of an identified asset for a period of time, the customer—throughout the period of use—must have *both*:

a. the right to obtain substantially all of the economic benefits from use of the identified asset; *and*

b. the right to direct the use of that asset.

The fact pattern described in the requests states that the electricity retailer has the right to direct the use of the battery (paragraph B9(b) of IFRS 16). The requests ask whether the electricity retailer, under the offtake arrangement, has the right to obtain substantially all of the economic benefits from use of the battery (paragraph B9(a) of IFRS 16).

Applying IFRS 16 to the fact pattern

Does the electricity retailer have the right to obtain substantially all of the economic benefits from use of the battery (paragraph B9(a) of IFRS 16)?

Paragraph B21 of IFRS 16 specifies that 'a customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, holding or sub-leasing the asset. The economic benefits from use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits from using the asset that could be realised from a commercial transaction with a third party.'

The Committee observed that, in the fact pattern described in the requests, the economic benefits from use of the battery are its storage capability and capacity; the battery is used to store, and then release, electricity.

The Committee also observed that the battery offtake arrangement provides the electricity retailer with the economic benefits derived from the battery storage because the electricity retailer has the exclusive right:

a. to use the entire capacity of the battery throughout the period of use (for the duration of the arrangement); and

b. to direct the battery owner as to whether and when to charge and discharge the battery.

Therefore, applying paragraph B21 of IFRS 16 to the fact pattern, the Committee concluded that the electricity retailer has the right to obtain substantially all of the economic benefits from use of the battery.

Does the electricity retailer have the right to direct the use of the battery (paragraph B9(b) of IFRS 16)?

The Committee observed that an entity, in determining whether it has the right to direct the use of an identified asset in the context of IFRS 16, considers the terms and conditions of the arrangement and all relevant facts and circumstances. Because the fact pattern described in the requests states that the electricity retailer has the right to direct the use of

the battery, the Committee did not consider the application of paragraph B9(b) of IFRS 16 to the fact pattern.

Conclusion

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an electricity retailer, as the customer in a battery offtake arrangement as described in the requests, to determine whether it has the right to obtain substantially all of the economic benefits from use of the battery. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Appendix B—the submissions

B1. We have reproduced the two submissions below and, in doing so, deleted details that would identify the submitters.

Submission 1

Suggested agenda item: Identifying a lease in 100% Offtake Battery Energy Storage System (BESS) agreements in gross pool electricity markets.

We have recently encountered diverging accounting treatments regarding Battery Energy Storage System (BESS) agreements in gross pool electricity markets, where a single customer agrees to utilise 100% of the capacity of the battery (known as a 100% Offtake Agreement). The divergence in accounting arises from whether the entity presenting financial results considers the agreement to be, or contain, a lease as defined in *IFRS 16 Leases*.

We seek clarification from the Committee on the matter.

Background

The Battery Energy Storage System (BESS) market is rapidly growing in [the submitter's jurisdiction]. Out of 49.6GW projects seeking a connection to the [wholesale electricity market in the submitter's jurisdiction] as at December 2024, over a third (18.1GW) of these connections were BESS projects - a 97% increase compared to December 2023[3]. The [energy regulator in the submitter's jurisdiction] currently calculates the average cost/kW for a 2-hour battery storage at $1,439/kW[4], which would value this 18.1GW worth of new connections at $1.4 billion worth of investment currently in the [wholesale electricity market] pipeline in [the submitter's jurisdiction] alone. This figure does not include future projects announced or under discussion, but not yet at the formal application stage, nor does it include assets in other countries, so the global future investment in BESS infrastructure is undoubtedly much higher.

[3] Source: [a news report about an increase in the number of battery energy storage systems seeking a connection the wholesale electricity market in the submitter's jurisdiction]

[4] Source: [a publication by the energy regulator in the submitter's jurisdiction]

With the growing prevalence of battery storage and the increasingly material financial transactions associated with these agreements, differing accounting treatments are likely to lead to significant incomparability between financial statements unless more clarity is provided by the Committee.

Gross Pool Markets explained

Gross pool markets have previously been explained in earlier IFRIC submissions. An extract from a previous submission[5] has been replicated here for convenience.

> *"Gross pool electricity markets have been identified in the USA, Korea, Singapore, Canada, Australia, New Zealand and parts of the EU. Some jurisdictions use gross pool markets exclusively and others use a combination of gross pool and net pool electricity markets.*
>
> *In a gross pool electricity market, all purchases and sales of electricity are cleared through a market operator on a gross basis, without the market operator taking delivery or on-selling electricity. There is no bilateral contractual arrangement between an actual seller (generator) and an actual buyer (retailer). Instead, all transactions are settled at spot prices via a market operator that acts as a clearing house for energy transactions. This means that*
>
> - *Electricity is supplied by the generator to a connection point on the power system through transmission lines.*
> - *The market operator meters the generator's delivery of electricity into the grid and the retailer's consumption of electricity from the grid for each 30-minute trading period[6].*

[5] Source: https://www.ifrs.org/content/dam/ifrs/meetings/2021/june/ifric/ap5-initial-consideration.pdf

[6] Note that since this previous IFRIC submission was written, the [wholesale electricity market in the submitter's jurisdiction] has shifted to 5-minute settlement periods instead of 30-minute periods. The underlying accounting principles remain unchanged however.

- *The market operator determines the spot price for each 30-minute interval during the trading day. The spot price is the market-determined clearing price that matches supply with demand.*

- *The market operator then calculates for each participant (retailers and generators) the amount due, or payable, by applying the relevant spot price to the metered amount for each trading period, and issues notices for payments and receipts to each participant.*

- *The retailers pay amounts due to the market operator on the settlement date and the market operator pays the amounts owed to generators on the same date.*

In contrast, in a net pool electricity market, the contracts between generators and retailers are "physically deliverable". In other words, a generator delivers electricity into the electricity grid in accordance with contracts it has entered directly with retailers."

There are additional relevant factors regarding BESS assets specifically, and how they function in a gross pool market, which are necessary to outline here.

In a gross pool market, the types of BESS assets typically seen in offtake agreements require their own connection point to the gross pool, even when it is co-located with other generation assets. Therefore, any energy charged and discharged from the asset will pass through the gross pool, and be transacted with the market operator accordingly. Some edge cases may exist where a BESS asset does not have its own gross pool connection point, but those cases are outside the scope of this paper.

Additionally, regarding settlement with the market operator, the gross pool requires a single Registered Participant to be nominated as the party who settles financially with the pool. Typically, the Registered Participant is the owner/operator of the BESS, not the customer, but some agreements will vary and nominate the customer to be the Registered Participant. The identity of the Registered Participant is important to the conclusions of this paper, and so it

shall be assumed that this paper is only concerned with agreements where the owner of the BESS is the Registered Participant.

In addition to settling financially with the gross pool, it is the Registered Participant who will communicate instructions on charging and discharging the asset to the market operator. It is possible for the Registered Participant to delegate this authority to another party by naming them as a Registered Participant Agent, and so it is common for the owner of the BESS to be the Registered Participant and the customer to be a nominated Agent who can submit instructions to the operator. In these scenarios, however, it is still the Registered Participant, not the Agent, who settles financially with the market.

BESS Agreements

A BESS agreement in a gross pool market refers to an agreement between the owner of the BESS and a customer. The owner will typically retain custody of the asset, and be responsible for maintenance and repairs, but will operate the asset in accordance with directions provided by the customer. These directions would refer to charging and discharging the battery in the gross pool market, paying an energy cost to charge or receiving energy revenues from discharging. Due to spot price fluctuations in the price of energy, it is possible to *"buy low, sell high*" and make an arbitrage profit on the price spread, even over very short periods. Price variability can be such that a BESS asset could potentially be charged and discharged multiple times in a day. Typically, the battery might charge in the middle of the day when prices are low, thanks to solar assets connected to the grid providing supply and pushing prices downward, and then discharge in the evening when those same solar assets have ramped off and caused prices to rise.

An example of a settlement structure between a BESS owner and a customer is as follows:

> *Settlement (c) = Fixed Amount (a) minus Floating amount (b).*
>
> The **Fixed amount (a)** is a commercially agreed value that reflects the size of the battery and the duration of use (e.g. a daily or weekly fee). It is adjusted for any periods of unexpected outage, asset failure, etc. This Fixed amount is payable

regardless of whether the battery is charged or discharged, provided it is *available for use*.

The **Floating amount (b)** is the net proceeds or deficit payable-to/receivable-from the gross pool market by the owner for the activity of the battery. Primarily this is charging and discharging, but can include market charges and other fees.

A customer can enter into a BESS agreement for only a portion of the battery's total capacity. For example, two customers might each contract for 60% and 40% respectively of the battery's capacity. There is wide agreement however that such an offtake agreement would not contain a lease due to the requirements of *IFRS 16.B9.(a)* that a lease conveys the right to obtain "*substantially all*" of the economic benefit of an asset. Therefore, it is only 100% offtake agreements which are the subject of this paper.

Considerations of *IFRS 16 - Leases*

IFRS 16 identifies that a contract contains a lease if it grants one party the right to *"control the use*"[7] of an identified asset. The standard subsequently defines control, by listing two criteria that need to be satisfied for control to be present. If both criteria are satisfied, then there is deemed to be control. The criteria are that the agreement conveys to the customer:

> *"(a) the right to obtain substantially all of the economic benefits from use of the identified asset … and*
>
> *(b) the right to direct the use of the identified asset*"[8]

The prevailing view among practitioners is that most 100% offtake non-virtual BESS agreements will satisfy criteria (b). In other words, it is generally accepted that the contract gives the customer the right to direct the use of the asset, and that asset is specified in the contract. The key feature of a BESS which allows a user to profit is the strategic choice of when to charge and discharge to maximise arbitrage profit. Therefore, there is less value to a

[7] IFRS 16.9
[8] IFRS 16.B9

customer in a BESS agreement where the customer cannot direct the charging and discharging behaviour.

The divergent views on the matter derive from whether a BESS agreement satisfies condition (a) - specifically, whether or not a 100% offtake BESS agreement conveys the right to obtain substantially all of the economic benefits from the use of the asset.

A key factor in the diverging views is the potential applicability of the previous IFRIC Decision, *"Economic Benefits from Use of a Windfarm (IFRS 16 Leases)"*[9], and so it is necessary to briefly visit this decision.

Considerations of IFRIC Decision "*Economic Benefits from Use of a Windfarm* (*IFRS 16 Leases)*"

In December 2021, IFRIC provided specific clarity on how IFRS 16 applies to renewable Power Purchase Agreements (PPAs)in a gross pool electricity market. The central tenet of the decision is that the primary output of a wind farm (the example used by IFRIC) is the electricity it produces and the associated renewable energy credits. Whilst PPA agreements may entitle the customer to the energy credits, **in a gross pool market the customer is not entitled to the electricity generated**. This is because a gross pool market is centralised, and energy is supplied or purchased to/from the grid, rather than directly between counterparties.

Under IFRS 16.B21, for a lease to exist, a customer must obtain the right to substantially all of the economic benefit from the use of an asset, including its *"primary output"*[10]. Since the customer is not entitled to the primary output of the asset, then the *"right to obtain substantially all of the economic benefit*" requirement of IFRS 16 is not satisfied, and therefore there is no lease. Consideration of the second requirement, namely the *"right to direct the use of the identified asset*", does not enter consideration because the first criterion has failed.

[9] Published December 2021, https://www.ifrs.org/content/dam/ifrs/supporting-implementation/agenda-decisions/2021/ifrs-16-econo mic-benefits-from-use-of-a-windfarm-dec-21.pdf

[10] IFRS 16.B21

It is this distinction that led IFRIC to conclude that wind farm PPAs in a gross pool market do not constitute lease agreements.

Views on the Application of IFRIC Decision to BESS Agreements

As indicated earlier, the applicability of this previous IFRIC decision has direct relevance to the diverging views of accounting for BESS agreements.

View 1 - 100% Offtake BESS Agreements do contain a lease

Proponents of View 1 argue that BESS agreements are different from Wind PPAs, in that one must consider that the "primary output" as per IFRS 16.B21 differs between the two agreement types. To briefly revisit 16.B21, the economic benefits "*include its primary output…*". They contend that whilst the "primary output" of a Wind Farm is electricity, **the primary output of a BESS is a storage service**. While in gross pool wind farm agreements, the customer is not receiving the primary output of electricity, in BESS agreements the customer is indeed receiving the primary output of the storage service.

In simpler terms, proponents of View 1 would liken a PPA to a gas refinery that produces natural gas, and liken a BESS to a gas storage pipeline. If one considers a business that produces natural gas and then stores it in a rented pipeline owned by a third party, it would not be reasonable to consider the "primary output" of the pipeline to be gas. Instead, the "primary output" of the pipeline is a storage service.

Under View 1, if one accepts that the "primary output" of a BESS asset is a storage service, then the natural conclusion to reach is that the customer of a BESS asset is still conveyed the right to the economic benefit from the usage of the asset. Therefore, whilst gross pool Wind PPA agreements do not meet the requirements of IFRS 16.B21, a 100% offtake BESS agreement does meet the requirements.

Proponents of View 1 would also draw attention to the substance of the transaction. In a 100% offtake BESS agreement, the customer is undoubtedly conveyed the right to direct the use of the asset, being that the customer will be making moment-to-moment decisions on whether to charge or discharge the asset, and directly drive the amount of economic benefit

that the asset yields. This economic benefit is transferred to the customer via the "floating price" settlement with the BESS owner. Therefore, in return for making all of the relevant decisions on how and for what purpose the asset is used, the risks and rewards of the asset are also conveyed to the customer. To proponents of View 1, the agreement is a lease, indistinguishable from other lease agreements, and so should be accounted as such.

View 2 - 100% Offtake BESS agreements do not contain a lease

Proponents of View 2 hold that, just as with Wind PPAs in the previously-referenced IFRIC decision, the gross pool nature of the energy market creates a separation between the customer and the economic benefit of the asset. This separation has the effect of making a BESS agreement in a gross pool market fail to satisfy the first criterion of IFRS 16.B9, and therefore lead to the conclusion that such an agreement does not contain a lease.

According to View 2, the economic benefit from the use of the BESS asset arises when the stored electricity is *output* into the grid and sold at the market spot price. This is the point at which revenues are earned, thus, it is reasonable to assert that the **primary output of a BESS is electricity**. This assertion leads to the same conclusion as the Wind PPA decision earlier, which is that since the agreement does not convey to the customer (in a gross pool) the right to the primary output, the agreement cannot contain a lease.

View 2 also asserts that the objectives of a 100% offtake BESS agreement are much closer to a derivative instrument than to a lease and that the accounting should reflect this. The customer's primary motivation is energy price arbitrage, akin to financial derivatives such as PPAs and Virtual Power Plants (VPPs). Crucially, the net settlement mechanism reinforces this derivative-like nature: rather than simply using the asset, the customer manages price exposure and settles energy costs without taking physical delivery. This structure aligns with IFRS 9's definition of a derivative - a financial instrument where value fluctuates based on an underlying variable (energy prices) and is settled without physical transfer. Unlike leases, where the primary benefit lies in asset usage, the BESS agreement operates as a financial tool for risk mitigation and speculation, often within a portfolio of generation assets and contracts.

Proponents of View 2 also put forward that this view (i.e. not a lease) will create more uniformity, comparability and understandability of financial statements.

Foremost, there would be uniformity with another kind of BESS agreement which is growing in popularity, known as a "virtual" agreement. Briefly, a virtual agreement is one where two parties enter into a BESS-like structured agreement where the customer and the operator transact a net settlement, calculated as a hypothetical result of "virtual" charges and discharges on an on-paper basis, without there necessarily being an actual physical BESS asset underlying the transactions. There is wide agreement that a virtual BESS agreement would not contain a lease, as there is no underlying asset for the customer to control. From the customer's standpoint, such agreements would be largely identical to a "physical" BESS agreement in terms of commercial objectives.

Likewise, whilst this paper is principally concerned with the accounting treatment for 100% offtake agreements, there is minimal difference from the customer's point of view between a 100% offtake or a lesser percentage. i.e. a customer would yield the same benefit from a 100% offtake on a 100MW battery as they would from a 50% offtake on a 200MW battery.

Therefore, it is the position of View 2 that differing accounting treatments between the varying but otherwise highly similar types of BESS agreements would lead to financial statements being incomparable despite different entities having entered into, in reality, extremely similar transactions.

Conclusion

As highlighted in the background to this letter, the prevalence of BESS agreements is growing, particularly as the world moves further away from climate-affecting fossil fuel energy towards renewable solutions, and the diverging opinions presented in this letter are only likely to lead to material differences between otherwise comparable financial statements.

We formally request IFRIC to include this issue on the Committee's agenda for consideration.

Submission 2

[…]

Suggested agenda item: identifying a lease - battery offtake arrangements in gross pool electricity markets.

It has come to our attention that there are diverse views on identifying whether battery offtake arrangements (BOAs) in a gross pool electricity market are, or contain, a lease as defined in IFRS 16 *Leases*.

We are seeking clarification by the IFRS Interpretations Committee (the Committee) of the issue detailed below.

Background

With the increased investment in the energy industry towards battery storage globally, a question has been raised as to whether the economic benefits of a BOA are fundamentally different to a virtual power purchase agreement (PPA) with a windfarm generator in a gross electricity market and therefore are, or contain, a lease. Many of the factors and analysis for a BOA are consistent with those presented as part of the 2021 IFRIC windfarm decision. As such, the assessment of the accounting treatment of a BOA cannot occur in isolation of the 2021 IFRIC windfarm decision.

In the November 2021 IFRIC update, the Committee concluded that an electricity retailer does not have the right to obtain substantially all the economic benefits from use of a windfarm throughout the term of an agreement with a windfarm generator. The Committee noted that the primary outputs of a windfarm is the electricity produced and the renewable energy credits, however, the economic benefits from the electricity produced from the windfarm could not be obtained by the electricity retailer due to the gross market construct. Emphasis was placed on the delivery of the economic benefits of the windfarm in the assessment of whether the windfarm was as a lease, with the fact pattern conceding control to the retailer via its pre-determined design.

The concept of delivery of economic benefits in the context of the normal purchase and sale scope exclusion (the 'own use' exemption) was also considered in recent Committee meetings and is an ongoing subject of discussion with the International Accounting Standards Board. While this discussion is part of the International Accounting Standard Board's recent project on Nature Dependent Electricity contracts, battery offtake arrangements are not in scope of those amendments. The principles in the June 2023 Staff papers presented to the Committee[11] denote that physical delivery of electricity can only occur in a net pool market. Therefore PPAs entered in gross pool markets are considered 'virtual PPAs' as the economic benefits can never be received by the electricity retailer, and as such, are considered derivatives.

This submission leverages the 2021 IFRIC windfarm decision and identifies key differences and similarities that arise due to the difference in the nature of the asset being analysed.

Battery offtake arrangement in a gross pool market

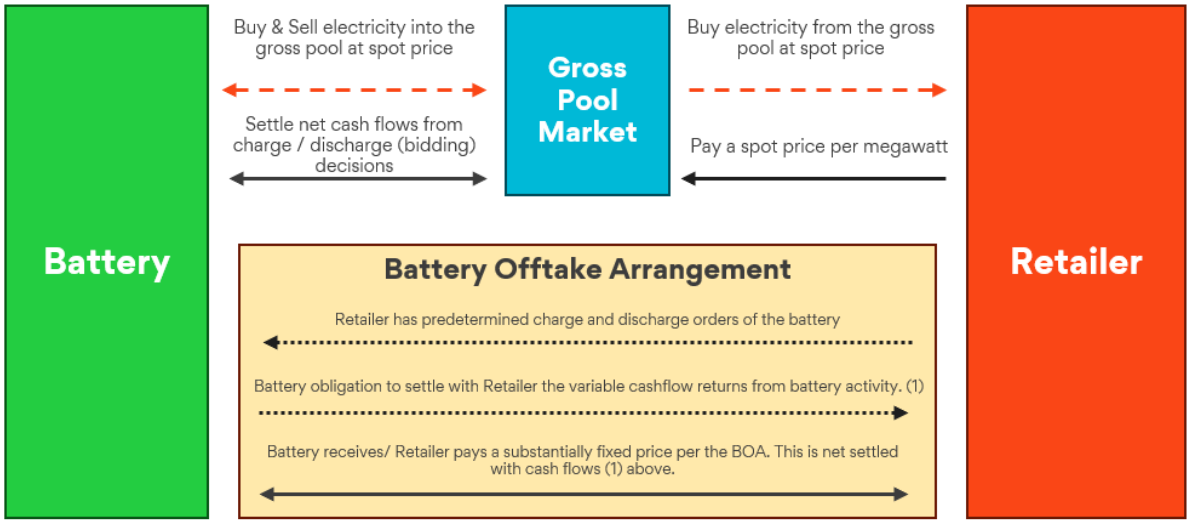
The mechanics of a gross pool market have been documented in recent IFRIC agenda decisions[12]. Therefore, only pertinent, incremental operational aspects of a BOA are considered below.

Similar to virtual PPAs in a gross pool market, BOAs in a gross pool market are entered into between battery owners and retailers that elect to manage their exposure to spot price risk by entering into arrangements which are settled outside the spot market. The battery owner is a registered participant in the gross pool electricity market, entering into a BOA with an electricity retailer that is also a registered participant in the gross pool electricity market.

[11] IFRS Staff Paper, Application of the 'own use' exception in the light of current market and geopolitical questions (IFRS 9), https://www.ifrs.org/content/dam/ifrs/meetings/2023/june/ifric/ap02-application-of-the-own-use-exception.pdf

[12] IFRS Staff Paper, Application of the 'own use' exception in the light of current market and geopolitical questions (IFRS 9), https://www.ifrs.org/content/dam/ifrs/meetings/2023/june/ifric/ap02-application-of-the-own-use-exception.pdf

IFRS Tentative Agenda Decision and comment letters: Economic Benefits from Use of a Windfarm (IFRS 16), https://www.ifrs.org/projects/completed-projects/2021/economic-benefits-from-use-of-a-windfarm-ifrs-16/tentative-agenda-decision-and-comment-letters/



BOAs typically have the following features:

- The arrangement explicitly refers to a large-scale commercial battery owned by the battery owner that will be used to sell electricity in the gross market (physical delivery).
- The battery cannot be substituted.
- The battery owner is the registered participant for the battery operations and is financially responsible for the battery activity to the electricity market operator. Battery activity includes revenue earned from the battery discharged into the grid and the expense for the electricity required to charge the battery from the grid, both at the relevant spot price.
- The electricity market operator will cash settle the variable battery activity with the battery owner weekly, in line with contractual obligation as financially responsible market participant with the gross market.
- Per the terms of the offtake arrangement, the variable cash flow from battery operations and the substantially fixed charge are net settled monthly with the electricity retailer outside of the electricity market operation mechanics.

- The battery owner as the registered participant for the battery, receipts physical benefit of the electrons as they pass to and from the grid.
- The electricity retailer pays to the battery owner a fixed charge per annum over a 10-year period. The economic useful life of the battery is approximately 20 years.
- In exchange for the substantially fixed charge, the electricity retailer receives or pays the variable cash flows to the battery owner.
- The battery operation activity is predetermined by the retailer in the offtake agreement and is required to charge daily in the middle of the day and discharge daily at the beginning of the evening peak.
- All activities required to physically enable the battery to charge/ discharge the battery in accordance with the offtake remains the responsibility of the battery owner.

48. In summary, the electricity retailer swaps a fixed amount in exchange for the variable cash flows associated with battery operations, which is used to hedge their retail pool market purchases. The difference between variable cashflow returns through operations and the fixed amount due from the electricity retailer are net settled between the two counterparties.

Identifying a lease under IFRS 16

IFRS 16:9 indicates that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16:B9 explains that to determine whether a contract conveys the right to control the use of an identified asset for a period of time, an entity shall assess whether, throughout the period of use, the customer has both of the following:

a) the right to obtain substantially all economic benefits from the use of the identified asset; and

b) the right to direct the use of the identified asset.

We are seeking the views of the IFRS Interpretations Committee solely on the application of the criterion in IFRS 16:B9(a) (i.e. whether the retailer has obtained substantially all economic benefits from the use of an identified asset) to the transaction described above. The assessment of the criterion in IFRS 16:B9(b) has been met as the electricity retailer is deemed to have control as they have set the predetermined operations of the battery per the scenario outlined above and is not subject to this submission.

Question – As a result of the BOA, has the retailer obtained substantially all the economic benefits from the use of an identified battery?

View 1 – Yes. The primary benefits of a battery are that of storage, not generation. Despite not receiving the battery's physical output of electricity, the electricity retailer retains the economic benefits associated with the battery's operation.

Proponents of this view believe that the primary benefit of a battery is storage rather than electricity generation. Inherent in the nature of a storage product, it does not have a product of itself to produce or generate, rather it 'houses' assets (in this case electricity as predetermined by the nature of the asset) for future consumption. Similarities can be drawn to gas pipelines or warehouses, where the economic benefit is the ability to transport or store assets. The entity that owns the pipeline or warehouse does not have rights to the items stored in these assets, nor can it control when or how the battery owners gain access.

In comparison to the 2021 IFRIC windfarm decision, the nature of the battery is fundamentally different to a windfarm. A windfarm is designed to passively generate electricity and therefore the economic benefits are the green certificates and electricity created in that generation. For batteries, the benefit is their ability to store and discharge that electricity as required. A commercial battery cannot generate electricity in its own right. As such the operating decision is the primary economic benefit associated with a battery. IFRS 16:B21 describes the economic benefits from the use of an asset as including its primary output and by-products including potential cash flows derived from these items, and as this decision is predetermined and entitlement to net proceeds remains with the electricity retailer, so too do the economic benefits.

Proponents of this view also believe that the battery owner is in substance, a settlement agent of the electricity retailer. This aligns with principal versus agent considerations of IFRS 15:B35. In this fact pattern, the battery owner does have legal title to the electricity, however, does not have bidding control to realise the economic benefits through sale to the gross pool market. The battery owner only takes physical delivery of the electricity momentarily before it is sold into the gross electricity market, with the entitlement to economic benefits being passed through to the retailer.

View 2 – No. The economic benefits of the battery is the *storage of electrons*. As such, the BOA does not provide the retailer with substantially all the economic benefits due to the structure of the gross pool electricity market.

Similar to the principles of the 2021 IFRIC windfarm decision, two series of transactions are taking place:

- Spot transactions in the gross pool electricity market (the retailer and the battery owner cannot contract with each other directly)
- The separate BOA agreement between the battery owner and the retailer

IFRS 16:B2 requires that two or more contracts should be combined and accounted for as a single contract when certain criteria are met. The prerequisites to the combination of contracts are that all contracts must be entered into at or near the same time with the same counterparty (or related parties of the counterparty).

In the fact pattern presented in this submission, these prerequisites are not fulfilled. In particular,

- The spot transactions and the BOA do not have the same counterparty. In fact, in a gross pool electricity market structure, there are no contractual counterparties for purchases and sales of electricity. Rather, transactions operate on a spot basis via a clearing house. Each spot transaction can be seen as a separate contract to buy electricity as and when a purchase is made.

- The spot transactions are a series of individual transactions as and when they occur. Consequently, even if a spot transaction is seen as giving rise to a separate contract to buy electricity at the time the electricity is delivered to the grid, the series of contracts that take place over the term of the BOA are not entered into at the same time of the BOA itself.

As a result, the BOA cannot be combined with the spot transactions for the purposes of applying IFRS 16.

IFRS 16:B21 describes the economic benefits from the use of an asset as including its primary output and by-products (including potential cash flows derived from these items). While a battery does allow for storage, this has no value without the physical output into the gross pool market and as such, the economic benefits are tied to the electrons flowing from the battery. As the registered participant for the battery, the battery owner has the ultimate responsibility to the market operator and legal title to the electricity stored and discharged from the battery. As the contracts cannot be combined as noted above, the entitlement to the economic benefits ultimately resides with the battery owner.

Further, important economic parallels of the BOA transaction can be drawn to the 2021 IFRIC windfarm decision. In both instances, the electricity retailer will pay a fixed amount, which will be netted against proceeds from sales and purchases to and from the grid and is settled as one net payment between the electricity retailer and battery owner. Therefore when considering economic benefits, the electricity retailer will be exposed to the financial return from bidding in the market, however it will be the battery owner who as the registered participant for the battery, will be the party that receives and sells the *benefit of electron storage* to the market.

Proponents of view 2 do not believe it is appropriate to draw a conclusion based on an ‘in substance’ analysis which ignores the market structure and consequential contractual rights and obligations which was reinforced by the 2021 IFRIC windfarm decision. The market structure gives rise to an important commercial difference. If linked, the contracts can be viewed as representing a normal executory transaction. There is no requirement of the retailer to execute purchases from the gross pool electricity market at spot that matches the profile of

the battery operations. The financial exposure (contract for cash settlements) of the battery is independent of the spot purchases of the electricity retailer. It is through matching volumes that a synthetically similar result can be achieved. However, in the present case, the criteria for combining contracts into a "synthetic" transaction, which are consistent in IFRS 15, IFRS 16 and IFRS 9, are not met. In this case, as explained earlier, there are different counterparties which cannot be ignored for the purposes of the accounting.

Proponents of view 2 also argue that accepting view 1 overlooks the economic benefits analysis outlined in the 2021 IFRIC windfarm decision. Like the 2021 windfarm decision, the BOA concedes control to the retailer and focuses on the primary economic output of the windfarm, being the generation of electrons. Similarly, view 2 considers the economic output of a battery to be the storage of electrons. The determining factor of whether a BOA is a lease is therefore the ability to gain access to those electrons, which cannot be achieved as a retailer in a gross pool market. To support view 1 and thereby determine that a BOA in a gross pool market is a lease because the economic benefit is primarily storage would be akin to determining that the economic benefit of a windfarm is primarily generation. Proponents of view 2 believe this would mean the beneficiary of the electron is ultimately ignored and thus would contradict the outcome of the 2021 IFRIC windfarm decision.

Reasons for the Committee to address the issue

BOAs are common in the utility industry and are expected to increase significantly in the near future. We have also noticed an increase in the use of BOAs outside of the utility industry as batteries form a critical part for climate conscious consumers wanting to transition to renewable generation and reduce greenhouse gas emissions. Given the tenure of BOA contracts and the volumes of electricity produced, these contracts are often highly material. Gross pool electricity markets are also commonly seen throughout the globe.

We are concerned that the different views observed in practice produce considerably different accounting results. For example, if it is concluded that the retailer obtains substantially all the economic benefits from an identified battery and that it has the ability to direct the use of that battery, the BOA is be accounted for as a lease. The fixed payments made by the retailer would result in a lease liability being recognised, however, as the battery owner would

effectively be seen as an agent of the retailer, the variable proceeds would likely be considered an executory contract and remain off balance sheet until realised.

On the other hand, if it is concluded that the retailer does not obtain substantially all the economic benefits from an identified battery, the BOA is not in the scope of IFRS 16. It is instead accounted for as a derivative applying IFRS 9 consistent with the 2021 IFRIC windfarm decision. These derivatives are typically large and highly material balances.

For these reasons, we believe that this issue is urgent and meets the criteria for acceptance into the Committee's agenda.

[…]