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## IASB<sup>®</sup> meeting

Date	<b>March 2024</b>
Project	<b>Power Purchase Agreements (PPAs)</b>
Topic	<b>Due Process Requirements</b>
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB<sup>®</sup> *Update*.

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This agenda paper has been updated and reposted on 13 March 2024 to correct mathematical errors in the tables for 'Stakeholders by type' and 'Stakeholders by jurisdiction' on page 7 of this paper.

## Introduction and purpose

1. As Agenda Paper 3 to this meeting explains, in this paper we ask the International Accounting Standards Board (IASB) for permission to begin the process for balloting the Exposure Draft proposing amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* as outlined in Agenda Papers 3A–3C of this meeting.

## Structure of this paper

2. This paper covers due process steps for publishing the Exposure Draft and includes:
  - (a) due process steps undertaken during this period;
  - (b) comment period;

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- (c) permission to ballot and intention to dissent;
  - (d) proposed timetable for balloting and publication; and
  - (e) questions for the IASB.
3. This paper includes one appendix—due process steps taken in developing the proposed amendments.

### Due process requirements

4. Paragraphs 6.4 and 6.5 of the [Due Process Handbook](#) explain that:
- (a) the development of an exposure draft takes place in public meetings;
  - (b) the technical staff prepares agenda papers containing research and recommendations on matters to be addressed and considered by the IASB; and
  - (c) the IASB also considers the comments received on any discussion paper, suggestions made by consultative groups and accounting standard-setters, and suggestions arising from consultation with other stakeholders.
5. Paragraph 6.6 of the Due Process Handbook states:
- When the [IASB] has reached general agreement on the technical matters in the project and has considered the likely effects of the proposals (see paragraphs 3.76–3.81 [of the Due Process Handbook]), the technical staff presents a paper to the [IASB]:
- (a) summarising the steps that the [IASB] has taken in developing the proposals, including a summary of when the [IASB] discussed the project in public meetings, public hearings held, outreach activities and meetings of consultative groups;
  - (b) ...; and
  - (c) recommending a comment period for the exposure draft.

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## Due process steps undertaken during the period

6. The appendix sets out the required due process steps in developing and publishing an Exposure Draft together with the current status of, and any planned action for, these steps.

## Comment period

7. Paragraph 6.7 of the Due Process Handbook states that the IASB ‘normally allows a minimum period of 120 days for comment on an Exposure Draft’. However, if the matter is narrow in scope and urgent, the IASB may consider a shorter comment period.
8. The staff is of the view that the scope of the proposed amendments is narrow in the that the amendments will apply only to contracts for renewable electricity contracts that have the particular characteristics as described in Agenda Paper 3A for this meeting. Furthermore, the proposed amendments are only affecting discrete aspects of the requirements in IFRS 9, in particular:
  - (a) the assessment of whether a contract to buy renewable electricity is entered into and continues to be held in accordance with a purchaser’s expected purchase or usage requirements (see Agenda Paper 3A for this meeting); and
  - (b) the designation of forecasted sales or purchases in a cash flow hedging relationship when a contract to buy or sell renewable electricity (ie a power purchase agreement) is designated as the hedging instrument (see Agenda Paper 3B for this meeting).
9. No amendments to any other requirements in IFRS 9 are proposed.
10. In addition, the IASB intends to propose disclosure requirements to be added to IFRS 7 that will enable users of financial statements to understand the effect of contracts for renewable electricity on an entity’s financial performance, as well as the timing, amount and uncertainty of future cash flows of the entity (see Agenda Paper

- 3C for this meeting). In developing these disclosure proposals, the IASB has carefully assessed the costs and benefits of the proposed disclosure so that these do not require costs and efforts that outweigh the benefits of the additional information to be provided to users of financial statements.
11. We acknowledge that these are complex areas of IFRS Accounting Standards and some stakeholders might rightfully be cautious about the IASB making changes to the requirements. This is particularly the case for hedge accounting, that is a specialised area and any amendments to the current requirements will require an element of education as part of the IASB's consultation on the Exposure Draft. Therefore, stakeholders should be given sufficient time to consider and analyse the proposed amendments.
  12. However, we also consider that the IASB added the project on power purchase agreements as an urgent project in July 2023, following requests from stakeholders for a timely solution that will better reflect the purpose and effects of these contracts in the financial statements while at the same time increase their own of renewable electricity.
  13. We are of the view that implementing the proposed amendments would not be burdensome for preparers. For contracts for renewable electricity to which the proposed amendments to the own-use requirements are applied, the proposed amendments would in fact reduce the accounting burden on preparers. And although there would be some effort required to apply the proposed amendments to the hedge-accounting requirements to those contracts to which the own-use requirements cannot be applied, we think the additional effort is only incremental. This is because those contracts are required to be accounted for as derivatives under IFRS 9 already. There is expected to be broad consensus on the proposed relief.
  14. The staff is currently aiming to finalise the amendments in 2024 (subject to stakeholder feedback on the Exposure Draft and the IASB's decisions during its redeliberations). To achieve this timetable, a shortened comment period is necessary. In balancing the need for providing stakeholders sufficient time to analyse the

proposed amendments, with the need for urgency as asked for by stakeholders, we are of the view that a comment period of 90 days for the Exposure Draft would be appropriate.

15. The staff plan to seek the approval of the Due Process Oversight Committee (DPOC) for a comment period of 90 days at its meeting on 21 March 2024.

### Permission to ballot and intention to dissent

16. This paper demonstrates that the IASB has completed all the applicable due process steps to date for balloting the Exposure Draft. Consequently, we request permission to begin the balloting process.
17. In accordance with paragraph 6.9 of the Due Process Handbook, we also ask if any IASB member intends to dissent from the proposals in the Exposure Draft.

### Proposed timetable for balloting and publication

18. We plan to begin the balloting process and expect to publish the Exposure Draft in the May 2024.

### Questions for the IASB

#### Questions for the IASB

1. **Comment period**—does the IASB agree with our recommendation to allow a comment period of 90 days for the Exposure Draft?
2. **Dissent**—does any IASB member intend to dissent from the proposals in the Exposure Draft?
3. **Permission to begin the process for balloting the Exposure Draft**—is the IASB satisfied that it has complied with the applicable due process steps and that it should begin the process for balloting the Exposure Draft?

## Appendix—Due process steps taken in developing the proposed amendments

A1. The following table summarises the required due process steps taken in developing the proposed amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* as outlined in Agenda Papers 3A–3C of this meeting. The table does not list optional steps.

Due process step	Actions
<p><b>International Accounting Standards Board (IASB) and IFRS Interpretations Committee (Committee) meetings held in public, with papers available for observers. All decisions made by the IASB was made in public sessions</b></p>	<p>The IASB discussed the matter at the following meetings:</p> <ul style="list-style-type: none"> <li>• <a href="#">July 2023</a>;</li> <li>• <a href="#">December 2023</a>;</li> <li>• <a href="#">January 2024</a>;</li> <li>• <a href="#">February 2024</a>; and</li> <li>• this meeting.</li> </ul> <p>The Interpretations Committee provided input to the IASB and discussed the matter at its <a href="#">November 2023</a> meeting.</p> <p>The <a href="#">project page</a> on the IFRS Foundation website was updated after every meeting.</p> <p>Agenda papers for the IASB and Committee meetings were posted on the website before every meeting on a timely basis and a summary of each meeting was included in IASB <i>Update</i> or IFRIC <i>Update</i> as appropriate.</p>
<p><b>Analysis of likely effects of the forthcoming Exposure Draft or major amendment, for example, initial costs or ongoing associated costs</b></p>	<p>The proposed amendments are narrow-in-scope and were developed in response to a submission to the Committee. The proposed amendments aim to better reflect the effects of Power Purchase Agreements (PPAs) in an entity’s financial statements. The proposed amendments therefore comprise:</p> <ul style="list-style-type: none"> <li>• proposed amendments to the own-use requirements in IFRS 9 that, in our view, enables the purchaser under a physical PPA to appropriately determine whether to account for the PPA as a normal purchase or a derivative;</li> </ul>

	<ul style="list-style-type: none"> <li>• proposed amendments to the hedge-accounting requirements that enable entities to designate PPAs accounted for as derivatives as a hedging instrument in a cash flow hedge relationship; and</li> <li>• additional disclosure requirements about PPAs that enable users of financial statement to assess the effects of PPAs on an entity’s financial performance and future cash flows.</li> </ul> <p>Input and feedback have, in general, been supportive of the proposals because the outcome of the amendments provides useful information about PPAs. As explained in the agenda papers for this meeting, we are of the view that the benefits of each of the IASB’s proposals outweighs the cost of that individual proposal listed above. We also think the benefits of the package of proposals also outweighs the cost.</p>																												
<p><b>Outreach meetings with stakeholders</b></p>	<p>During the development of the proposals, we held outreach 38 outreach meetings with stakeholders. Some stakeholders we spoke to more than once and some meetings included participants from different jurisdictions. We summarise our stakeholder representation by type and jurisdiction:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><b>Stakeholders by type</b></th> <th style="text-align: right;"><b>Number</b></th> </tr> </thead> <tbody> <tr> <td>Auditors</td> <td style="text-align: right;">6</td> </tr> <tr> <td>Investors or investor groups</td> <td style="text-align: right;">5</td> </tr> <tr> <td>Preparers or preparer groups</td> <td style="text-align: right;">15</td> </tr> <tr> <td>Standard-setters, including the Accounting Standards Advisory Forum (ASAF)</td> <td style="text-align: right;">2</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;"><b>28</b></td> </tr> <tr> <th style="text-align: left;"><b>Stakeholders by jurisdiction</b></th> <th style="text-align: right;"><b>Number</b></th> </tr> <tr> <td>Africa</td> <td style="text-align: right;">1</td> </tr> <tr> <td>Asia-Oceania</td> <td style="text-align: right;">1</td> </tr> <tr> <td>Europe</td> <td style="text-align: right;">12</td> </tr> <tr> <td>North America</td> <td style="text-align: right;">6</td> </tr> <tr> <td>South America</td> <td style="text-align: right;">1</td> </tr> <tr> <td>Multiple jurisdictions</td> <td style="text-align: right;">7</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;"><b>28</b></td> </tr> </tbody> </table>	<b>Stakeholders by type</b>	<b>Number</b>	Auditors	6	Investors or investor groups	5	Preparers or preparer groups	15	Standard-setters, including the Accounting Standards Advisory Forum (ASAF)	2		<b>28</b>	<b>Stakeholders by jurisdiction</b>	<b>Number</b>	Africa	1	Asia-Oceania	1	Europe	12	North America	6	South America	1	Multiple jurisdictions	7		<b>28</b>
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<b>Due process steps reviewed by the IASB</b>	This step is being met by this agenda paper.
<b>The forthcoming Exposure Draft has an appropriate comment period</b>	This step is being met by this agenda paper—see paragraphs 7–15.
<b>Drafting</b>	
<b>Drafting quality assurance steps are adequate</b>	The IASB as well as the IFRS Foundation’s translations, editorial and taxonomy teams will review drafts during the balloting process.
<b>Publication</b>	
<b>Exposure Draft published</b>	We plan to make the Exposure Draft available on our website when published.
<b>Press release to announce publication of the Exposure Draft</b>	We plan to publish a press release on our website with the Exposure Draft.