IFRS Accounting

Staff paper

Agenda reference: 3

IASB® meeting

Date	**March 2024**
Project	**Power Purchase Agreements (PPAs)**
Topic	**Cover note**

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Purpose of this meeting

1. In January 2024 we presented to the IASB our preliminary thinking about potential amendments to IFRS 9 *Financial Instruments* to address the accounting challenges for Power Purchase Agreements (PPAs). We developed our preliminary thinking from input we received when conducting outreach with the IFRS Interpretations Committee (the Committee), the Accounting Standards Advisory Forum (ASAF), large accounting firms and other stakeholders.

2. Since the IASB meeting in January, we discussed these potential amendments with members of ASAF at a virtual meeting in January 2024 and conducted further informal outreach meetings with large accounting firms and a number of organisations that represents preparers. Agenda Paper 3D of this meeting includes more details about who we spoke to. We presented a summary of some of this feedback at the IASB's February 2024 meeting.

3. As a reminder, PPAs can be broadly grouped into physical PPAs and virtual PPAs. Under a physical PPA the purchaser has a contractual obligation to gross settle the volume of electricity delivered under the contract. A virtual PPA is a contract for the

settlement of the difference between the spot price and the contractually specified price without any obligation to take delivery of energy.

4. Each group of PPAs (physical and virtual) has its own predominant accounting challenges. These challenges are:

   (a) *physical PPAs*—how to apply the requirements in paragraph 2.4 of IFRS 9 when an entity assesses whether the contract was 'entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements' (the own-use requirements) when the purchaser must use the energy delivered within a short period after delivery or otherwise are forced to sell to market participants at the spot price.

   (b) *PPAs as hedging instruments*—how to designate PPAs (physical PPAs that fail own-use and virtual PPAs) as a hedging instrument in a cash flow hedging relationship (the hedge-accounting requirements) that better reflect the results of the entity's risk management strategy.

5. We also assume in the agenda papers for this meeting that an entity has determined that IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 16 *Leases*, IAS 28 *Investments in Associates and Joint Ventures* and IFRIC 12 *Service Concession Arrangements* do not apply to its PPAs. Consequently, the entity needs to assess the accounting for these PPAs applying IFRS 9.

6. At this month's meeting we will ask the IASB to consider our recommendations for proposals to include in an Exposure Draft and ask for permission to begin the process for balloting an exposure draft. We include for this meeting the following agenda papers:

   (a) Agenda Paper 3A: *Scope and own-use requirements*. This paper discusses the scope of the proposed amendments for both the own-use- and hedge-accounting requirements and contains specific recommendations for applying the own use requirements to contracts within the scope of the proposed amendments.

(b) Agenda Paper 3B: *Proposed amendments to the hedge-accounting requirements.* This paper includes our analysis and recommendations for proposed amendments to the hedge-accounting requirements using PPAs as hedging instruments;

(c) Agenda Paper 3C: *Proposed disclosure- and transition requirements*. This paper includes our analysis and recommendations for proposed disclosure requirements and transition requirements for both the own-use- and hedge-accounting requirements; and

(d) Agenda Paper 3D: *Due process requirements*. This paper includes the due process steps for the proposed amendments and asks the IASB for permission to begin the process for balloting an exposure draft.