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## Update on the IFRS Interpretations Committee’s activities

### Objective and Introduction

- 1 The objective of this paper is to provide, for information purposes, a summary of the main open issues discussed by the IFRS Interpretations Committee (the ‘IFRS IC’ or the ‘Committee’ or ‘IFRIC’).
- 2 The paper only focuses on the IFRS IC issues that are still ‘open’ at the date of the summary, that is, matters that have not yet led to a final decision by the IFRS IC (This paper does not provide detailed information on IASB projects where input is being sought from IFRS IC members).
- 3 This presentation raises EFRAG FR TEG’s and EFRAG CFSS’s awareness of issues being discussed at the IFRS IC and possible interactions with EFRAG’s commenting activities and future standard setting. The session is not intended, however, to respond to the IFRS IC tentative decisions. Therefore, the paper does not contain the EFRAG Secretariat’s initial views on the issues and does not seek EFRAG FR TEG’s nor EFRAG CFSS’s technical assessment on the matters.
- 4 If EFRAG FR TEG or EFRAG CFSS express the wish to further discuss any of the presented issues, a session could be organised at a future meeting. EFRAG FR TEG-CFSS members can also express the need to participate in the IASB’s outreach on the topics listed.

### Overview of IFRS IC’s current activity

- 5 Below is an overview of the IFRS IC’s current activities.

Project/Topic (including hyperlinks to the IASB website for each item)	Related Standards	Current status	Last IFRS IC meeting discussed	Next milestone	Next milestone expected date
<b>Comment letters received on tentative agenda decision</b>					

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Project/Topic (including hyperlinks to the IASB website for each item)	Related Standards	Current status	Last IFRS IC meeting discussed	Next milestone	Next milestone expected date
<a href="#">Translation to a Hyperinflationary Presentation Currency</a>	IAS 29	Tentative Agenda Decision Feedback letter deadline – 3 February 2025	26 Nov 2024	Finalise agenda decision	Not specified
<b>Initial consideration</b>					
<a href="#">Determining and Accounting for Transaction Cost</a>	IFRS 9	Tentative agenda decision in June 2025	-	Tentative agenda decision in June 2025	Not specified
<a href="#">Embedded Prepayment Option</a>	IFRS 9	Tentative agenda decision in June 2025	-	Tentative agenda decision in June 2025	Not specified
<a href="#">Updates to Agenda Decisions for IFRS 18</a>	IFRS 18	Tentative agenda decision in June 2025	26 Nov 2024	Tentative agenda decision in June 2025	Not specified
<b>Input on IASB's project</b>					
<a href="#">Business Combinations— Disclosures, Goodwill and Impairment</a>	IFRS 3, IAS 36	Collecting input on possible rebuttable presumption approach to identify business combinations and on the operating profit threshold	11 June 2024	Decide Project Direction	2026
<b>Pipeline topics</b>					
<a href="#">Customer rights in offtake battery energy storage system arrangements</a> (2 submissions)	IFRS 16	Not yet discussed by IFRS IC			

### Comment letters received on tentative agenda decisions

*Assessing Indicators of Hyperinflationary Economies (IAS 29 Financial Reporting in Hyperinflationary Economies)*

#### *Issue and background*

- 6 In November 2024, the IFRS Interpretations Committee (Committee) published a tentative agenda decision [Assessing Indicators of Hyperinflationary Economies \(IAS 29\)](#) in response to a submission about applying IAS 29 *Financial Reporting in Hyperinflationary Economies* to identify when an economy becomes hyperinflationary (for more information, refer to [AP4](#) of the June 2025 IFRIC meeting).
- 7 The submission asked:

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- (a) whether all indicators in paragraph 3 of IAS 29 should be considered in assessing when an economy becomes hyperinflationary, including whether to continue to consider all indicators even when one indicator in paragraph 3 has been met;
- (b) whether IAS 29 requires the consideration of indicators other than those listed in paragraph 3 of IAS 29 when relevant; and
- (c) whether IAS 29 requires both a subsidiary (in its financial statements) and a parent (in its consolidated financial statements) to conclude consistently on when an economy becomes hyperinflationary.

### *November 2024 IFRIC update*

8 Evidence gathered by the Committee [to date] indicated little, if any, diversity in understanding the requirements for assessing when an economy becomes hyperinflationary. According to the evidence, stakeholders:

- (a) do not conclude that an economy becomes hyperinflationary based solely on one of the indicators listed in paragraph 3 of IAS 29;
- (b) consider indicators other than those listed in paragraph 3 of IAS 29 when relevant; and
- (c) do not reach different conclusions at different levels within a group when applying IFRS Accounting Standards.

9 Based on its findings, the Committee concluded that the matter described in the submission does not have widespread effect. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

### *Comment letter analysis*

#### Indicators in paragraph 3 of IAS 29

10 All respondents agreed (or did not disagree) with IFRIC's findings. Some respondents noted that different weightings might be applied to the indicators, resulting in inconsistent application and consequently, inconsistent conclusions on whether an economy is hyperinflationary. They especially considered that greater weighting is given to the quantitative indicator in paragraph 3(e) of IAS 29, and that the weighting placed on indicators not listed in paragraph 3 is unduly less. Therefore, in their view, standard setting is needed to effectively address inconsistencies.

11 The IASB staff considered that the feedback received supports the IFRIC's findings of little diversity in understanding of the requirements, given that the different weightings given to the indicators evidences the application of judgement, rather than diversity.

Whether IAS 29 requires both a subsidiary and a parent to conclude consistently on when an economy becomes hyperinflationary

- 12 Most respondents agreed with IFRIC's findings. A few highlighted that a different conclusion has been reflected between local bodies issuing laws or regulations on whether the economy is hyperinflationary in accordance with IAS 29 and international accounting and auditing firms' publications.
- 13 The IASB staff considered that the feedback received confirms that stakeholders using the same basis of preparation do not reach different conclusions at different levels within a group about when an economy becomes hyperinflationary. They recommend clarifying this in the final agenda decision.

The role of judgement in assessing whether an economy is hyperinflationary

- 14 The IASB staff recommends:
- (a) referencing feedback confirming the role of judgement in applying paragraph 3 of IAS 29 in the agenda decision; and
  - (b) report to the IASB feedback on the tentative agenda decision related to the application of judgement in applying paragraph 3 of IAS 29 and resulting challenges to help inform the IASB's next agenda consultation, as the IASB plans to consult on a possible project about hyperinflation within its Fourth Agenda Consultation.

Overall IASB Staff recommendation

- 15 The IASB Staff recommend finalising the agenda decision, as published in IFRIC Update in November 2024 with some changes as explained above.

**Initial consideration**

Determining and Accounting for Transaction Cost (IFRS 9 Financial Instruments)

Issue and background

- 16 IFRS IC received a [submission](#) about application of the definition of, and requirements in IFRS 9 Financial Instruments relating to, transaction costs.
- 17 The submission asked how an entity determines whether costs that are directly attributable to originating a financial instrument but incurred prior to entering into the contractual arrangement, are 'incremental' and therefore meet the definition of transaction costs in Appendix A of IFRS 9.
- 18 In the fact pattern described in the submission an entity intends to enter into a loan agreement with a bank and incurs legal and advisory fees while analysing the terms and conditions of the proposed loan. The entity plans to proceed with the agreement, but the loan contract has not been signed as of the date the entity's financial statements are issued.

- 19 The submission outlined two views:
- (a) View 1—costs that are incurred prior to entering into the contractual arrangement are not transaction costs as defined in Appendix A of IFRS 9. This view is based on the notion of ‘incremental costs’ explained in the definition of transaction costs that states that ‘an incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument’;
  - (b) View 2—costs that are incurred prior to entering into the contractual arrangement meet the definition of transaction costs even if there is a possibility that the financial instrument might not be originated or issued.
- 20 Assuming that such costs are determined to be transaction costs, the submission asked how to account for such costs in the period between incurring the costs and entering into the contractual arrangement.

*IASB Staff analysis and recommendations*

- 21 IASB staff sent an information request to members of the IFASS, securities regulators and large accounting firms. 15 responses were received.
- 22 Feedback received by IASB staff indicates no diversity that could have a material effect on entities’ financial statements with regards to determining and accounting for transaction costs incurred prior to entering into a contractual arrangement. Feedback suggests that:
- (a) Costs that are directly attributable to the origination or issuance of a financial instrument and incurred prior to entering into the contractual arrangement, are determined to be incremental and, accordingly, transaction costs; and
  - (b) Such costs are recognised in the statement of financial position (often as prepayments or other assets) until they are included in the amortised cost of the financial instrument.
- 23 Therefore, the IASB staff recommends not adding a standard-setting project to the work plan and instead publishing a tentative agenda decision that explains the Committee’s reasons for not adding a standard-setting project.

Embedded Prepayment Option (IFRS 9 Financial Instruments)

Issue and background

- 24 IFRS IC received a [submission](#) asking whether, for purposes of applying paragraph B4.3.5(e)(ii)<sup>1</sup> of IFRS 9 to a prepayment option in a financial liability, **the reference to ‘the entity’ should be read to refer to ‘the lender’ or ‘the reporting entity’ (that is the borrower).**
- 25 According to the submitter two interpretations could be argued as follows:
- (a) "the entity" refers to 'the lender' as lost interest should be considered from the lender's perspective. It is observed that to consider lost interest from the perspective of the borrower would not represent the substance of the transaction or reflect the economic reality of what you would legally have to pay the lender if you did prepay.  
OR
  - (b) "the entity" is 'the reporting entity' and lost interest should be considered from the reporting entity's perspective.
- 26 The distinction between ‘the entity’ meaning ‘the lender’ or ‘the borrower’ can be significant, because the assessment of whether or not to separate an embedded derivative from the host contract, could be different depending on whether it is assessed from the lender’s or the borrower’s perspective. According to submitter the effects of accounting for an embedded derivative at fair value through profit or loss and for a host contract at amortised cost could materially differ from the effects of accounting for the entire financial liability at amortised cost.
- 27 The lost interest would also be calculated differently from the borrower’s and lender’s perspective.

*IASB Staff analysis and recommendations*

- 28 IASB staff sent an information request to members of the IFASS, securities regulators and large accounting firms. 15 responses were received.

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<sup>1</sup> Paragraph B4.3.5(e)(ii) of IFRS 9 states: ...

e) A call, put, or prepayment option embedded in a host debt contract or host insurance contract is not closely related to the host contract unless: ...

(ii) the exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the effective interest rate of the host contract over the effective interest rate **the entity** would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract [emphasis added].

- 29 All respondents did not observe any diversity in practice with the interpretation of the term ‘the entity’ in paragraph B4.3.5(e)(ii) of IFRS 9 which is in their opinion should be read as referring to the lender.
- 30 They provided the following arguments:
- (a) The first sentence of the paragraph B4.3.5(e)(ii) of IFRS 9 refers to the lender and ‘the entity’ in the last sentence of the same paragraph only specifies how the principle in the first sentence should be applied.
  - (b) Only ‘the lender’ makes sense in the context of lost interest and the reinvesting the prepaid amount.
  - (c) Paragraph BCZ4.97 of the BC on IFRS 9 explaining the IASB’s intention to provide the exception to embedded prepayment option, also refers to ‘compensation to the lender’.
  - (d) The guidance of the some of the large accounting firms on embedded derivatives also considers that ‘the entity’ means ‘the lender’.
  - (e) A few respondents suggested the IASB consider replacing ‘the entity’ with ‘the lender’ in paragraph B4.3.5(e)(ii) of IFRS 9 for clarity, for example, as part of the Annual Improvements process.
  - (f) One accounting firm noted that, in many instances, the fair value of the prepayment option is not material as the terms of the option typically are set to disincentivise a borrower from prepayment.
- 31 Based on the feedback received, the IASB Staff concluded that there was no evidence that the matter had widespread effect or that diversity in application could have a material effect on entities’ financial statements.
- 32 Consequently, the IASB Staff recommended not to add a standard-setting project to the work plan and instead to publish a tentative agenda decision that explains its reasons for not adding a standard-setting project.

#### Updates to Agenda Decisions for IFRS 18

##### [Issue and background](#)

- 33 Following the publication of IFRS 18, a number of IFRIC agenda decisions referencing IAS 1 need to be updated as follows:
- (a) 2 agenda decisions (Presentation requirements and Presentation of liabilities or assets related to uncertain tax treatments) will be withdrawn because IFRS 18 has new requirements compared to IAS 1;

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- (b) 29 agenda decisions will be updated to include reference to IFRS 18 because the requirements of IAS 1 used in these IFRIC decisions were brought unchanged to IFRS 18;
- (c) 9 agenda decisions will be considered with regard to the new or amended requirements in IFRS 18. These 9 agenda decisions reference general requirements about presentation, materiality and aggregation;
- (d) 1 agenda decision will be considered to assess how an entity applies the requirements in IFRS 18 to the fact pattern addressed by the agenda decision Supply Chain Financing Arrangements – Reverse Factoring.

*IASB Staff analysis and recommendations*

34 Updates to 9 agenda decisions proposed by the IASB Staff:

Agenda decision	Extent of references to IAS 1	Type of update
<a href="#">Disclosure of Revenues and Expenses for Reportable Segments</a> (July 2024)	The agenda decision refers to the materiality and aggregation requirements of IAS 1 in considering how to aggregate information in its financial statements.	Replace reference to paragraphs 30–31 of IAS 1 with a reference to the principles of aggregation and disaggregation in IFRS 18
<a href="#">Demand Deposits with Restrictions on Use arising from a Contract with a Third Party</a> (April 2022)	The agenda decision refers to the requirements in IAS 1 to present separate line items in the statement of financial position when such presentation is relevant to an understanding of the entity’s financial position.	Replace references to paragraphs 54–55 of IAS 1 with references to the role of the primary financial statements (incl. a useful structured summary) in IFRS 18.
<a href="#">Subsequent Expenditure on Biological Assets</a> (September 2019)	The agenda decision refers to the requirements in paragraphs 81–101 of IAS 1 for presenting subsequent expenditure in the statement of profit or loss by: (a) presenting such expense as a separate line item in the statement of financial performance when such presentation is relevant to an understanding of the entity’s financial performance; and (b) presenting expenses either by nature or function.	Replace the reference to paragraphs 81–105 of IAS 1 with references to: (a) the role of the primary financial statements (incl. a useful structured summary); and (b) the requirements to classify and present expenses in the operating category using one or both of the nature or function of the expenses.
<a href="#">Disclosure of Changes in Liabilities Arising from Financing Activities</a> (September 2019)	The agenda decision refers to the aggregation requirements in IAS 1 to help an entity determine the extent to which it disaggregates	Replace the reference to paragraphs 30A of IAS 1 with a reference to the principles of

	and explains changes in liabilities arising from financing activities included in the reconciliation to meet the objective in paragraph 44A of IAS 7.	aggregation and disaggregation in IFRS 18.
<a href="#">Physical settlement of contracts to buy or sell a nonfinancial item</a> (March 2019)	The agenda decision includes a statement specifying that IAS 1 does not include specific requirements for the presentation of amounts related to the remeasurement of derivatives.	Delete the statement that IAS 1 does not include specific requirements for the presentation of amounts related to the remeasurement of derivatives. We do not add anything else because the applicable requirements are those of IFRS 7 <i>Financial Instruments: Disclosures</i> .
<a href="#">Presentation of income and expenses arising on financial instruments with a negative yield</a> (January 2015)	The agenda decision refers to the requirement to add a separate line item to the statement of financial performance when such presentation is relevant to an understanding of the entity's financial performance.	Replace the reference to paragraph 85 in IAS 1 with a reference to the role of the primary financial statements (incl. a useful structured summary) in IFRS 18.
<a href="#">Presentation of payments on non-income taxes</a> (July 2012)	The agenda decision refers to paragraph 82(d) of IAS 1 that requires an entity to present 'tax expense' in the statement of financial performance.	Replace the reference to paragraph 82(d) of IAS 1 with a reference to the requirement to present 'income tax expense or income' in paragraph 75(a)(iv) of IFRS 18.
<a href="#">Classification of tonnage taxes</a> (May 2009)	The agenda decision refers to the requirement in paragraph 85 of IAS 1 for adding a separate line item (or subtotal) to the statement of financial performance when such presentation is relevant to an understanding of the entity's financial performance.	Replace the reference to paragraph 85 in IAS 1 with a reference to the role of the primary financial statements (incl. a useful structured summary) in IFRS 18.
<a href="#">Normal operating cycle</a> (June 2005)	The agenda decision refers to the aggregation requirements in IAS 1 to disclose additional information if that information is material.	Replace the reference to IAS 1 with a reference to the principles of aggregation and disaggregation in IFRS 18 (including materiality).

- 35 The IASB Staff analysed how the requirements of IFRS 18 might change the agenda decision [Supply Chain Financing Arrangements – Reverse Factoring](#). Under IFRS 18, the Staff proposes to update the agenda decision to explain that an entity shall consider the guidance on aggregation and disaggregation, description of roles of primary financial statements and notes, including the concept of useful structured summary, as well as

characteristics listed in paragraphs B110(c)-(k) to identify the nature and function of the liabilities.

36 The outcome of the Staff analysis is summarised below.

37 Presentation of reverse factoring liabilities:

<b>Under IAS 1</b>	<b>Under IFRS 18</b>
(a) within trade and other payables;	No change
(b) within other financial liabilities; or	
(c) as a line item separate from other items in its statement of financial position	

38 An entity presents a financial liability as a trade payable only when:

<b>Under IAS 1</b>	<b>Under IFRS 18</b>
(a) represents a liability to pay for goods or services;	No change
(b) is invoiced or formally agreed with the supplier; and	
(c) is part of the working capital used in the entity's normal operating cycle.	

39 An entity presents other payables together with trade payable only when:

<b>Under IAS 1</b>	<b>Under IFRS 18</b>
those other payables have a similar nature and function to trade payables—for example, when other payables are part of the working capital used in the entity's normal operating cycle	Those other payables share at least one similar characteristic with trade payables other than meeting the definition of liabilities—for example, when other payables are part of the working capital used in the entity's normal operating cycle

40 An entity presents the liabilities that are part of a reverse factoring arrangement separately when:

<b>Under IAS 1</b>	<b>Under IFRS 18</b>
the size, nature or function of those liabilities makes separate presentation relevant to an understanding of the entity's financial position. In assessing whether to present such liabilities separately (including whether to disaggregate trade and other payables), an entity considers the amounts, nature and timing of those liabilities.	these liabilities have sufficiently dissimilar characteristics from other liabilities that such presentation in the statement of financial position is necessary for the statement of financial position to provide a useful structured summary.

<p>An entity assessing whether to present liabilities that are part of a reverse factoring arrangement separately might consider factors including, for example: (a) whether additional security is provided as part of the arrangement that would not be provided without the arrangement and (b) the extent to which the terms of liabilities that are part of the arrangement differ from the terms of the entity's trade payables that are not part of the arrangement.</p>	<p>The proposed update to the agenda decision notes that paragraph B111 of IFRS 18 states that trade payables disaggregated in accordance with paragraph 44H of IAS 7 Statement of Cash Flows, might have sufficiently dissimilar characteristics that presentation in the statement of financial position is necessary to provide a useful structured summary or disclosure in the notes is necessary to provide material information</p>
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41 Derecognition of a financial liability:

<b>Under IAS 1</b>	<b>Under IFRS 18</b>
<p>an entity that derecognises a trade payable to a supplier and recognises a new financial liability to a financial institution applies IAS 1 in determining how to present that new liability in its statement of financial position</p>	<p>No change outside of updating reference to include paragraph B51(b) of IFRS 18 that lists an example of liabilities that arise from transactions that involve only the raising of finance. One of those examples is a liability under a supplier finance arrangement when the payable for goods or services is derecognised</p>

42 Presentation in the statement of cash flows:

<b>Under IAS 1</b>	<b>Under IFRS 18</b>
<p>the nature of the liabilities that are part of the arrangement may help in determining whether the related cash flows arise from operating or financing activities.</p> <p>For example, if the entity considers the related liability:</p> <p>(a) to be a trade or other payable that is part of the working capital used in the entity's principal revenue-producing activities, the entity presents cash outflows to settle the liability as arising from operating activities in its statement of cash flows; and</p> <p>(b) is not a trade or other payable because the liability represents borrowings of the entity, the entity presents cash outflows to settle the liability as arising from financing activities in its statement of cash flows.</p>	<p>Conclusions reached in the previous agenda decision remain valid. The agenda will be updated to refer to the process of aggregation and disaggregation in paragraphs B16–B18 of IFRS 18—that is, the process an entity undertakes to determine how to present liabilities in the statement of financial position is the same process an entity undertakes to determine how to present the cash flows that arise from these liabilities in the statement of cash flows. It is for this reason that an entity's conclusion about the presentation of the liabilities in the statement of financial position might help inform the entity's assessment of how to present the resulting cash flows in the statement of financial position.</p>

43 Disclosure in the notes to the financial statements:

- (a) Paragraphs 112 and 122 of IAS 1 referred to in the original agenda decision were carried forward to paragraph 113 of IFRS 18 and paragraph 27G of IAS 8 Basis of Preparation of Financial Statements respectively. The update will be limited to references.

## **Input to IASB**

### *Business Combinations—Disclosures, Goodwill and Impairment*

#### *Issue and background*

- 44 The IASB has started analysis of the feedback received on the ED and in particular on requiring entities to disclose performance information for only a subset of business combinations ('BC'). The IASB Staff is now asking views of the IFRS IC members (and also of ASAF, CMAC and GPF) on a possible rebuttable presumption approach to identify business combinations and on the operating profit threshold.
- 45 Feedback showed concerns with design of the threshold approach, in particular with 10% quantitative thresholds being rule-based and not capturing the right population of BC and challenges in applying qualitative thresholds.
- 46 Many respondents suggested to design a rebuttable presumption which will allow an entity not to disclose performance information for a BC that meets the thresholds in specified situations.

#### *IASB Staff analysis and recommendations*

##### Rebuttable presumption

- 47 To eventually design a rebuttable presumption the IASB is asking questions on:
- (a) *How to define a principle or basis for overcoming the rebuttable presumption: how to describe the population of BCs for which receiving performance information would be important for investors?*
- (b) *Whether to require an entity to consider disclosing performance information for the entities not meeting the thresholds but for which users need the information (thus making rebuttable presumption work both ways): would benefits of such disclosure exceed the costs?*
- (c) *Whether to require an entity to disclose the fact and reason for rebuttal: would this information be useful to users and would preparers have concerns with disclosing it?*
- (d) *Costs and benefits of rebuttable presumption approach: whether it will address preparers' concerns about a threshold approach inappropriately capturing BCs*

whose performance information may not be important enough to users and users' need for performance information about BCs they deem important?

Operating profit threshold

- 48 Many respondents expressed concerns about including operating profit among the three quantitative thresholds, mostly on the grounds that it can be volatile and may result in capturing 'non-strategic' BCs.
- 49 To address these concerns, the IASB Staff is asking whether the operating profit threshold would capture BCs important to users that would not be captured by the asset or revenue thresholds?

**IFRS IC pipeline topic**

*Customer rights in offtake battery energy storage system arrangements*

*Introduction and summary of the issue*

- 50 The IFRS IC received two requests for guidance on whether battery offtake arrangements (BOAs) / Battery Energy Storage System (BESS) agreements in gross pool electricity markets constitute or contain a lease under IFRS 16 *Leases*. These agreements typically involve a customer directing the charging and discharging of a Battery Energy Storage System (BESS) asset. The owner typically retains custody of the asset and is responsible for maintenance and repairs, while the customer provides directions for operating the asset (charging and discharging the battery, paying an energy cost to charge or receive energy revenues from discharging). Given that energy prices fluctuate, it is possible to charge the battery when energy prices are low and discharge it when prices are high, and therefore a BESS asset could be charged and discharged multiple times a day.
- 51 Both submissions asked the IFRS IC to clarify whether battery offtake arrangements satisfy the criterion that they convey the '*right to obtain substantially all of the economic benefits from the use of the identified asset*'.

*Current practice*

- 52 The below accounting treatments reflect current diversity in practice:
- (a) **View 1:** These agreements **do** contain a lease, which is different to 2021 [IFRIC Decision 'Economic Benefits from Use of a Windfarm \(IFRS 16 Leases\)'](#). Proponents argue that these agreements are fundamentally different from Wind PPAs because the nature of the asset's primary output differs; wind farms generate electricity, while batteries provide a storage service. In such agreements, the customer receives the benefit of the storage service, which is considered the primary output. As such, the customer obtains substantially all the economic benefits from use of the asset,

meeting the requirement of IFRS 16.B21<sup>2</sup>. Therefore, proponents of View 1 conclude that these agreements qualify as leases under IFRS 16.

- (b) **View 2:** These agreements **do not** contain a lease, consistent with the 2021 [IFRIC Decision 'Economic Benefits from Use of a Windfarm \(IFRS 16 Leases\)'](#). Proponents argue that similar to Wind PPAs, these agreements create a separation between the customer and the economic benefit of the asset. This separation means that such agreements fail to meet the criterion of IFRS 16.B9 and therefore do not constitute a lease under IFRS 16. According to View 2, the economic benefit from the use of battery arises when the stored electricity is output into the grid and sold at the market spot price, and the storage has no value without the physical output of electricity. Proponents of View 2 further support that these agreements meet the definition of a derivative under IFRS 9 rather than a lease – i.e., a financial instrument where the value fluctuates based on an underlying variable (energy prices) and is settled without physical transfer.

### Next steps

53 The EFRAG Secretariat will continue to monitor the IFRS IC's discussions.

#### Questions for EFRAG FR TEG and CFSS

54 Does EFRAG FR TEG and CFSS have any comments on the above IFRS IC topics? Are there topics which EFRAG FR TEG and CFSS consider are significant and where standard-setting is needed? Please explain.

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<sup>2</sup> IFRS 16.B21 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.'