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Contracts for Renewable Electricity

Cover Note

Objective

- 1 The objective of this session is to provide an update on the recent developments of the IASB's project Power Purchase Agreements and related EFRAG's activity.

Overview

- 2 The IASB published its [Exposure Draft Contracts for Renewable Electricity \(proposed amendments to IFRS 9 and IFRS 7\)](#) (ED) on 8 May 2024.
- 3 EFRAG Secretariat discussed the proposals of the ED with the EFRAG Financial Instruments Working Group, EFRAG User Panel, EFRAG Consultative Forum of Standard Setters, EFRAG Financial Reporting Technical Expert Group and EFRAG Financial Reporting Board. Following the discussions, [EFRAG's draft comment letter \(DCL\)](#) was published on 13 June 2024 with the request to constituents to provide their feedback by 15 July 2024.
- 4 In total twelve comment letters were received and considered. The comment letters received came from national standard setters, business associations, professional organisations, a solo practitioner and an EU authority. In addition to the comment letters received, EFRAG participated in a [joint outreach event](#) held on 4 July 2024 together with the IASB, ASCG (Accounting Standards Committee of Germany) and AFRAC (Austrian Financial Reporting Advisory Committee) and discussed EFRAG's DCL with the EFRAG User Panel and EFRAG SRB.
- 5 EFRAG issued its [final comment letter](#) (FCL) on 31 July 2024 (included within the agenda paper 04-03 for the ease of FIWG members). The final comment letter remained overall consistent with the draft comment letter expressing EFRAG's support of the direction of

the IASB's proposals geared towards a narrow-scope application, addressing both own-use exception requirements and hedge accounting requirements.

- 6 The IASB received and considered more than 90 comment letters and IASB Staff provided a [summary of the feedback received](#) at a supplementary meeting of the IASB in August 2024. No decisions were taken in the August IASB meeting.
- 7 The agenda paper provided for the ASAF meeting reproduces the information that was included for the IASB August meeting (the ASAF paper is provided as agenda paper 06-02 for this EFRAG FR TEG – CFSS meeting).

IASB Staff proposal to address the feedback received during Exposure Draft consultation

Scope

- (a) *Clarify the nature dependency on source and volume uncertainty.*
- (b) *Move volume misalignment to own-use consideration.*
- (c) *Provide further explanation and/or examples.*

Own-use exemption

- (d) *Clarify link to current paragraph 2.4 and 2.6 of IFRS 9.*
- (e) *Focus on contracted volume and timing of volume used in own use assessment.*
- (f) *Clarify net-purchase (own use) and reasonable time.*
- (g) *Clarify the information an entity is required to consider.*

Hedge accounting requirements

- (h) *Clarify link to current hedge accounting requirements.*
- (i) *Provide additional explanation for why highly probable is not needed for seller and clarify that sellers must also be the producer of the electricity.*
- (j) *Clarify the link between highly probable capacity of forecast purchases and the variable nominal amount designated as the hedged item.*
- (k) *Clarify the level of granularity of forecast purchases needed to assess the economic relationship.*
- (l) *Consider providing illustrative examples to application of proposed amendments, for example designating variable notional, measurement of ineffectiveness.*

Contracts for renewable electricity

Disclosures

- (m) Consider reducing scope of disclosures to either contracts accounted for as normal purchases after applying the own-use proposals, or contracts accounted for applying the amendments.
- (n) Amend the scope of IFRS 7 to include contracts accounted for as normal purchases after applying the amendments.
- (o) Clarify the items of information to be disclosed to better achieve the refined disclosure objectives.
- (p) Consider whether specified items of information achieve a balance between not requiring disclosure of commercially sensitive information with the need for providing useful information to investors.

Transition requirements

- (q) Consider permitting early application only from beginning of a reporting period.
- (r) Consider clarifications to transition requirements for hedge accounting including changes to existing hedging relationships.

Effective date

- (s) Consider effective date of 1 January 2026 with early application permitted.

EFRAG Secretariat observations

- 8 Among the large majority positive to the proposed amendments there was an overall high level of homogeneity in the feedback received by the IASB and frequent alignment with the comments expressed in EFRAG's comment letter.
- 9 EFRAG Secretariat is happy to see consistency between items identified by IASB Staff to address the feedback and the feedback provided by EFRAG and agrees with the IASB staff proposals to address the feedback received.
- 10 IASB Staff has done outstanding work in organising the feedback received and indicating the very tight way forward to a set of final amendments in December 2024.

Next steps

- 11 It is expected that the IASB will have decision making sessions in September and October meetings with final amendments to be published in December 2024.

Question for EFRAG FR TEG – CFSS members

- 12 Do you have questions or comments about the feedback we received or the IASB's tentative decisions?

Agenda papers

- 13 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 06-02: ASAF paper - Summary of the feedback received by the IASB