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Power Purchase Agreements – Cover note

Objective

- 1 The objective of this agenda paper is to:
 - (a) present EFRAG FR TEG members with a summary of the comment letters received by the IASB on its Exposure Draft [Contracts for Renewable Electricity \(proposed amendments to IFRS 9 and IFRS 7\)](#) (ED), ensuing IASB staff's analysis and considerations and related proposals related to the [scope of the proposed amendments](#) and [own-use requirements](#), presented to the IASB at its September meeting;
 - (b) present the EFRAG Secretariat analysis of the proposals, and
 - (c) seek EFRAG FR TEG members view on the abovementioned proposals.

Overview

- 2 Following the publication of its Exposure Draft [Contracts for Renewable Electricity \(proposed amendments to IFRS 9 and IFRS 7\)](#) (ED), on 8 May 2024 and the receipt of 90 comment letters, the IASB has focused its September discussion on the first two questions of the ED – scope of the proposed amendments and own-use requirements. Detailed analysis of the feedback received by the IASB and related IASB Staff proposals are presented in the agenda papers 05-02 and 05-03.
- 3 At its September 2024 meeting, the IASB tentatively decided to finalise the proposed scope of the amendments, subject to clarifying that contracts within the scope of the proposed amendments:
 - (a) reference nature-dependent electricity generated from sources that depend on natural conditions that cannot be controlled;
 - (b) can be settled net or gross; and

- (c) expose an entity to cash-flow variability that depends on the contracted amount of nature-dependent electricity.
- 4 The IASB tentatively decided to finalise the proposed requirements on applying paragraph 2.4 of IFRS 9 to a contract to buy nature-dependent electricity. This finalisation is subject to clarifying the relationship between the proposed requirements and requirements in paragraphs 2.4–2.7 of IFRS 9 and that an entity:
- (a) applies the additional considerations for these electricity contracts only if:
 - (i) the contractual features expose the entity to the risk of oversupply of electricity in any delivery interval; and
 - (ii) the entity does not have the practical ability to avoid selling any oversupply of electricity at the market-determined time, based on the design and operation of the market in which electricity is bought.
 - (b) assesses whether it will be a net purchaser over a reasonable amount of time when applying the own-use requirements to such a contract. An entity is a net purchaser if it buys enough electricity in the market in which it buys electricity to offset sales of any oversupply in that same market.
 - (c) making the assessment described in (b), considers:
 - (i) the seasonality of the nature-dependent source of electricity generation and the entity’s business cycle to decide what constitutes ‘a reasonable amount of time’. The IASB tentatively decided that a ‘reasonable amount of time’ cannot exceed 12 months.
 - (ii) all reasonable and supportable information, including forward-looking information, at the date of the assessment.
 - (iii) whether it has been a net purchaser over a reasonable amount time (but not exceeding 12 months).
- 5 The EFRAG Secretariat notes that the tentative decisions are in-line with the [EFRAG’s final comment letter](#) (FCL) and supports the decisions. Overall, majority of the recommendations of the FCL are taken into account and reflected in the tentative decisions as it relates to the scope of the amendments and the own-use requirements. However, there are some items raised in the EFRAG’s FCL that are not addressed by the current tentative decisions. Further, based on the EFRAG Secretariat analysis, the abovementioned tentative decisions may lead to some application questions from the stakeholders.

Therefore, the Secretariat included further considerations as to the wording of the final amendments within the issue papers included for this session.

Agenda papers

- 6 This issues papers included for this session contain:
- (a) Agenda paper 05-02 – Scope of the proposed amendments – Issue paper
 - (b) Agenda paper 05-03 – Own-use requirements – Issue paper

Questions to the EFRAG FR TEG members:

- 7 Do you have any comments or additional points to the EFRAG Secretariat analysis on the scope of the proposed amendments?
- 8 Do you have any comments or additional points to the EFRAG Secretariat analysis on the own-use requirements?

Next Steps

- 9 The IASB is planning to address the rest of the questions raised in the ED at its October meeting.
- 10 The final amendments are expected to be published in December 2024.