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## Own use assessment – Issues paper

### Objective

- 1 The objective of this agenda paper is to:
  - (a) present a summary of the comment letters received by the IASB and the IASB staff considerations and proposals based on this feedback;
  - (b) present an EFRAG Secretariat analysis of the proposals.

### Structure of the paper

- 2 This issues papers contains:
  - (a) IASB's tentative decisions;
  - (b) ED proposals
  - (c) Feedback to the ED proposals and IASB staff analysis;
  - (d) EFRAG Secretariat assessment;

### IASB's tentative decisions

- 3 In September 2024, 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).

#### **ED proposals**

- 4 The ED [Contracts for Renewable Electricity](#) included the following proposals in relation to the own use assessment:
- 5 (6.10.3) To be able to apply paragraph 2.4 of IFRS 9 to contracts in the scope of the proposed amendments, the ED requires an entity to consider at the inception of the contract and at each reporting date:
  - (a) (6.10.3(a)) the purpose, design and structure of the contract, including volumes to be delivered. The ED specified that to assess the consistency between the volumes expected to be delivered and the entity's needs of electricity, an entity had to consider reasonable and supportable information available at the reporting date for at least 12 months but an entity could extrapolate projections for longer periods; and
  - (b) (6.10.3(b)) whether past and expected sales of unused electricity shortly after delivery occur because of:
    - (i) (6.10.3(b)i) mismatches between the electricity delivered and an entity's demand at the time of delivery;
    - (ii) (6.10.3(b)ii) the design and operation of the market, which prevents an entity from determining the timing or price of the sale; and/or

- (iii) (6.10.3(b)iii) an entity expecting to purchase at least an equivalent volume of electricity within a reasonable time after the sale. The IASB added an example of one month to demonstrate that a reasonable time is typically a short time.

### Feedback to the ED proposals and IASB staff analysis

- 6 Information on this section was prepared based on the IASB staff agenda paper [AP3B: Own-use amendments](#).

#### *The scope and context of the own-use amendments*

##### Feedback to the ED proposals

- 7 A few respondents asked whether the proposed own-use amendments apply to all NDE ('Nature-Dependent Electricity') contracts, including NDE contracts for difference and how the own-use amendments interact with the own-use requirements. A few respondents were concerned that the own-use amendments may appear to 'interpret' aspects of the own-use requirements (e.g. how an entity makes estimations). Some respondents suggested that clarity could be improved by incorporating the own-use amendments in Chapter 2 of IFRS 9 or as application guidance of Chapter 2.

##### IASB staff analysis

- 8 The IASB staff agreed with the last suggestion of the above paragraph. They also remarked that the IASB did not intend for the own-use amendments to be a replacement of the own-use requirements but rather **as additional considerations** to apply to an NDE contract for receipt (i.e. physical PPAs). The IASB staff disagreed with extending the own-use amendments to include NDE contracts for difference (i.e. virtual PPAs) as these contracts are financial instruments accounted for as derivatives. The IASB staff clarified they did not intend for the own-use amendments to affect how entities apply the own-use requirements to other contracts.

#### *The risks that arise from NDE contracts for receipt*

##### *Risk one—volume risk*

##### Feedback to the ED proposals

- 9 Most of the respondents, including EFRAG, asked the IASB to clarify the concept of 'volume risk' as described in the ED. A few respondents, including EFRAG, asked the IASB to clarify how contractual features (i.e. caps and floors on the volume of electricity to be purchased) to mitigate the risk of over-supply affect whether an entity is exposed to 'substantially all' of the volume risk.

IASB staff analysis

- 10 For an NDE contract for receipt the proposed scoping requirements require an entity to buy the contracted volume of electricity as and when the electricity is produced and delivered and not, necessarily, when the entity needs electricity. Therefore, the entity is exposed to the risk that during a delivery interval, the entity can receive either an over-supply or an under-supply of electricity.
- 11 For the purposes of the own-use assessment, the IASB staff was of the view that the risk of an over-supply of electricity was more relevant than the risk of under-supply as it leads to sales of electricity. Therefore, they **specifically referred to the risk of over-supply of electricity during a delivery interval to better explain the concept of volume risk.**
- 12 The IASB staff was also of the view that the clarification proposed regarding volume risk (i.e. volume risk is the risk of over-supply during a delivery interval) adequately caters for features like caps or floors and without referring to ‘substantially all’. For them, the key aspect was that an entity remains exposed to the risk of over-supply during a delivery interval (i.e. an NDE contract might include a cap on a daily basis but it is still subject to the risk of over-supply during any delivery interval).

*Risk two—the market design*

Feedback to the ED proposals

- 13 A few respondents, including EFRAG, suggested the wording ‘result in the entity not having the practical ability to determine the timing or price of the sale of unused electricity’ might exclude contracts entered into by entities that operate in an electricity spot market under which prices are established before delivery of electricity takes place. Many respondents, including EFRAG, also said that in their jurisdiction, parties cannot always access the electricity market directly but through an intermediary. Another few respondents, including EFRAG, asked whether an entity’s ability to influence the price of the sales is relevant in the context of an own-use assessment (i.e. only the timing of the sale is important).

IASB staff analysis

- 14 The IASB staff was of the view that the wording could be simplified to accommodate different types of market designs or operations while preserving the main principle. In this regard, the main principle of considering the design and operation of the market in which the electricity is received, is to ensure that the entity has no practical ability to avoid a sale of any over-supply of electricity. If the market design offers alternatives to a sale, the unique risks that arise from NDE contracts for receipt are not present. The IASB staff also

agreed with respondents that the timing of the sale was the important factor in assessing the market design.

*An entity's own-use assessment of NDE contracts for receipt*

*Timing of the assessment*

Feedback to the ED proposals

- 15 A few respondents asked whether the IASB intended that an entity is required to only perform its own-use assessment for NDE contracts for receipt at contract inception and at each reporting date. In their view, the own-use requirements require a continuous assessment throughout a reporting period.

IASB staff analysis

- 16 The IASB staff agreed with these respondents. The recommendation to clarify that paragraphs 2.4–2.7 of IFRS 9 remain applicable for NDE contracts for receipt responds effectively to this feedback.

*The purpose, design and structure of the contract*

Feedback to the ED proposals

- 17 A few respondents, including EFRAG, asked whether the proposed requirement for an entity to assess the reasons for sales of unused electricity are not in itself sufficient (i.e. to assess the purpose, design and structure of a contract is implicitly required in the own-use requirements).

IASB staff analysis

- 18 BC20(b) of the ED explained that 'oversized' contract would not be in accordance with the entity's expected usage requirements. The IASB staff was of the view that variability about the volumes of electricity an entity expects to receive and how that volume continues to be in accordance with the entity's expected usage requirements could mask 'oversized' contracts. Therefore, they still considered that the own-use amendments need to include additional considerations to avoid such a situation. However, they noted that the 'net-purchaser over a reasonable amount of time' could be better articulation than the phrase 'purpose, design and structure of the contract'.

*Net-purchaser over reasonable amount of time—forward-looking assessment*

Feedback to the ED proposals

- 19 Most respondents agreed with the principle that an entity should always expect to be in a net-purchaser position over a reasonable amount of time. Some of these respondents asked whether the net-purchaser assessment needs to be performed over discrete periods on a stand-alone basis or assessed on a rolling basis.

- 20 A few respondents, including EFRAG, also asked whether the assessment should be done on a contract level, a reporting entity level or a higher level. One respondent asked whether an entity only considers the usage for the specific site for which the contract is intended; or could the total expected usage of the reporting entity or other entities within a group be considered. Another respondent said that in their view, it would be inappropriate to consider expected usage in electricity markets that are unconnected to the market in which the entity receives the electricity under the contract.

IASB staff analysis

- 21 To add clarity, the IASB staff suggested improving the wording by requiring an entity to expect to buy back more electricity from the market than it sells over a reasonable amount of time. The IASB staff was also of the view that an entity needs to have been a net-purchaser for the 12-month period that ends at the date of an own-use assessment. This results in a rolling 12-month assessment for both the forward- and backward-looking assessments.
- 22 The IASB staff noted that in accordance with paragraph 2.4 of IFRS 9 the own use assessment is at the entity level. However, they considered that an entity needs to apply judgment in which market the entity receives electricity under the contract. They were also persuaded that it would be inappropriate to consider expected purchases in electricity markets that are unconnected to the market in which the entity receives the electricity under the contract. The net-purchaser assessment can be illustrated in the following example prepared by the IASB staff:

*Background*

*Company A enters into an NDE contract for receipt to power its hydrogen production facility. The inherent uncertainty of the nature-dependent source of production exposes Company A to potential operational inefficiencies if the referenced production facility fails to provide sufficient electricity to run the hydrogen facility at optimal levels. Consequently, Company A negotiates the NDE contract for receipt for 120% of the electricity capacity of the hydrogen facility to ensure that, based on a probability-weighted average, it is more likely that it will receive electricity that is sufficient to run the facility at optimal levels.*

*Analysis*

*The net-purchaser assessment requires that an entity expects to buy more electricity in the market than it sells because of any over-supply under the contract. The expected purchases are not limited to purchases for only the hydrogen facility. Company A considers all its expected purchases in the market in which the entity receives electricity under the contract.*

*Company A would need to expect to have sufficient headroom in its overall demand so that the expected purchases in that market offset the sales of any over-supply of electricity. The NDE electricity contract would be ‘oversized’ if Company A does not have sufficient headroom.*

#### *Reasonable amount of time*

##### Feedback to the ED proposals

- 23 Most respondents, including EFRAG, said that a period of one month was too short for a reasonable amount of time because of the seasonality of the related nature-dependent production source or the seasonality of an entity’s operations. These respondents suggested that instead the IASB should include the seasonality factors when determining a reasonable amount of time. A few of these respondents, including EFRAG, also suggested a maximum period of 12 months as a backstop.

##### IASB staff analysis

- 24 Following BC20(c) of the ED<sup>1</sup>, the IASB staff suggested that an entity should consider the seasonality of its operations to determine what would constitute a reasonable amount of time. The IASB staff was persuaded by respondents to also consider the seasonality of the related nature-dependent production source and to include a maximum period of 12 months as a backstop.

#### *Long-dated estimates*

##### Feedback to the ED proposals

- 25 A few respondents asked whether making use of ‘reasonable and supportable information’ would be unique to the own-use assessment when applying the proposed amendments. A few others, including EFRAG, raised concerns that this proposal might cause unintended consequences as it could imply that for other contracts, entities must make detailed estimates for periods longer than 12 months. Some respondents suggested the wording of the proposed requirement is not clear about whether an entity is permitted to ignore reasonable and supportable information about periods more than 12 months after the reporting date. Some respondents also noted that budgets are not usually approved on the reporting date and therefore if the supportable information comes from an entity’s budget, it would technically be shorter than 12 months.

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<sup>1</sup> The IASB proposed to require that an entity purchase an equivalent volume of electricity that was sold shortly after delivery in the market within a reasonable time after the sale. ‘Reasonable’ depends on an entity’s operations. The IASB added to proposed paragraph 10.6.3(b)(iii) an example of one month to demonstrate that a reasonable time is typically a short time.

IASB staff analysis

- 26 The IASB staff acknowledged potential for misunderstanding with regards to considering a period not shorter than 12 months, or in which circumstances an entity might need to consider a shorter period. They were of the view that these concerns could be addressed by simplifying the wording to refer to ‘reasonable and supportable information’ and clarifying that this phrase has the same meaning as explained in paragraphs B5.5.49–B5.5.54 of IFRS 9.

**EFRAG Secretariat assessment**

- 27 The EFRAG Secretariat considers that the IASB tentative decisions address most of the comments raised in question 2 of EFRAG’s Comment Letter and generally improve the proposals included in the ED.