EFRAG Financial reporting

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Power Purchase Agreements – Cover note

Objective

1 The objective of this session 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 hedge accounting requirements, disclosure requirements and transition provisions presented to the IASB at its October 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 the ED, on 8 May 2024 and the receipt of 90 comment letters, the IASB focused its October discussion on the hedge accounting requirements, disclosures and transition considerations of the proposed amendments. Detailed analysis of the feedback received by the IASB, and related IASB Staff proposals are presented in the agenda papers 03-02 and 03-03.

3 At the October 2024 meeting, the IASB made the following tentative decisions:

Hedge accounting amendments

4 The IASB tentatively decided to finalise the proposed hedge accounting requirements set out in the ED, subject to minor changes:

(a) to clarify to which particular requirements in Section 6.3 of IFRS 9 *Financial Instruments* the proposed amendments relate;

(b) to clarify that an entity would be permitted to align the amount of forecasted transactions designated as the hedged item with the variable amount of nature-dependent electricity expected to be delivered by the facility referenced in the hedging instrument;

(c) to clarify that, if the cash flows of the hedging instrument are conditional on the occurrence of the hedged forecast transaction, the 'highly probable' assessment would not be relevant; and

(d) to add qualitative examples to illustrate the application of the proposed amendments.

5 The IASB also tentatively decided not to add any additional guidance for the purpose of the 'highly probable' assessment.

Disclosure requirements

6 The IASB tentatively decided to finalise the proposed disclosure requirements as they were set out in the ED (including the proposals applicable to an entity applying IFRS 19 *Subsidiaries without Public Accountability: Disclosures*) but with minor changes:

(a) to limit the scope of the disclosure requirements to contracts that would be accounted for in accordance with the proposed amendments—that is, contracts:

i. entered into for the receipt of nature-dependent electricity that would be accounted for as executory contracts in accordance with the proposed own-use amendments; and

ii. designated in a hedging relationship as hedging instruments in accordance with the hedge accounting amendments.

(b) to clarify that, for contracts described in (a)(i), an entity would be required to disclose information about their terms and conditions that expose the entity to:

i. the variability of the contracted amount of nature-dependent electricity; and

ii. the risk of oversupply of electricity in any delivery interval.

(c) to clarify that, for contracts described in (a)(ii), an entity would satisfy the proposed requirement to disclose information about the contracts' terms and conditions by disaggregating the information required to be disclosed by paragraph 23A of IFRS 7 *Financial Instruments: Disclosures.*

(d) to require, for unrecognised contractual commitments from contracts described in (a)(i), an entity to disclose:

i. the aggregated expected cash flows from buying electricity under these contracts. An entity would be required to use its judgement to determine the appropriate time bands within which to aggregate the future expected cash flows.

ii. qualitative information about how it assesses whether a contract might become onerous, including the methods and assumptions it used to make this assessment.

(e) to require, for contracts described in (a)(i), an entity to disclose qualitative and quantitative information about how it determines whether it remains a net-purchaser for the reporting period. The entity is required to disclose information about the cash flows for the reporting period arising from:

i. purchases of electricity under the contracts, disaggregating information about the purchases of any unused electricity;

ii. sales of unused electricity; and

iii. purchases of electricity that offset sales of unused electricity.

(f) to amend paragraph 5 of IFRS 7 to ensure that the contracts described in (a)(i) would be subject to the disclosure requirements proposed for inclusion in that Standard.

(g) to require an entity to cross-refer between notes to the financial statements if it disclosed information about contracts within the scope of the proposed amendments in more than one note.

Transition and effective date

7 The IASB tentatively decided to set an effective date of 1 January 2026, with early application permitted from the date of initial application.

8 For the proposed own-use amendments, the IASB tentatively decided:

(a) to continue to require retrospective application without requiring an entity to restate comparative information (as proposed in the ED);

(b) to require an entity’s assessment under the proposed own-use amendments to be made based on its facts and circumstances at the date of initial application; and

(c) to permit the entity to designate, at the date of initial application, contracts at fair value through profit or loss in accordance with paragraph 2.5 of IFRS 9.

9 For the hedge accounting amendments, the IASB tentatively decided:

(a) to continue to require an entity to apply hedge accounting requirements prospectively; and

(b) to permit an entity to discontinue an existing hedging relationship on the date of initial application of the amendments, and to designate a new hedging relationship applying the amendments.

EFRAG Secretariat analysis

10 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 hedge accounting, disclosure requirements, transition considerations and the effective date. However, there are some items raised in the EFRAG's FCL that are not addressed by the current tentative decisions, specifically with regard to the hedge accounting and disclosure requirements. Further, based on the EFRAG Secretariat analysis, the abovementioned tentative decisions may lead to some application questions. Therefore, the Secretariat included further considerations as to the wording of the final amendments within the issue papers 03-02 and 03-03 included for this session.

11 With regard to the transition requirements, the EFRAG Secretariat noted that the IASB took into consideration the feedback included in EFRAG's comment letter and tentatively decided to allow the entities to reassess the requirements of paragraph 2.5 of IFRS 9 upon transition thus allowing the contracts in scope of the proposed amendments to be presented at fair value through profit or loss if the conditions are met. EFRAG's suggestion to reconsider the application of the hedge accounting proposals retrospectively was considered and discussed by the IASB, however, not retained it in the tentative decisions as that would represent a significant changed from the current requirements.

Agenda papers

12 This issues papers included for this session contain:

(a) Agenda paper 03-02 – Hedge accounting – Issue paper

(b) Agenda paper 03-03 – Disclosure requirements – Issue paper

Questions to the EFRAG FR TEG members:

13 Do you have any comments or additional points to the EFRAG Secretariat analysis on the hedge accounting requirements?

14	Do you have any comments or additional points to the EFRAG Secretariat analysis on the disclosure requirements?
15	Do you have any comments or additional points in relation to the transition requirements and effective date?

Next Steps

16 The final amendments are expected to be published in December 2024.