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Power Purchase Agreements

Cover Note

Objective

- 1 The objective of this session is to seek input from EFRAG FR TEG-CFSS on potential amendments to IFRS 9 to address the issues on Power Purchase Arrangements (PPAs) and virtual Power Purchase Arrangements (vPPAs) raised by the IASB's stakeholders in anticipation of the ASAF meeting that will take place on 29 January 2024. Input is sought on:
 - (a) Potential amendments to IFRS 9 on PPAs and vPPAs suggested by the IASB staff; and
 - (b) Alternative solutions not discussed by the IASB staff.

Background of the IASB project

- 2 At its June 2023 meeting, the IASB tentatively decided to add a project to the work plan to research whether narrow-scope amendments could be made to IFRS 9 to better reflect how financial statements are affected by power purchase agreements ('PPAs') in which the underlying non-financial item:
 - (a) cannot be stored economically; and
 - (b) is required to either be consumed or sold within a short time as determined by the market structure in which the item is bought and sold.
- 3 The IASB's research focused on:
 - (a) prevalence of PPAs;
 - (b) applying the own-use exception in IFRS 9 to physical PPAs; and
 - (c) applying the hedge accounting requirements in IFRS 9 using a virtual PPA as the hedging instrument.
- 4 At its December 2023 meeting, the IASB discussed the research made by the IASB staff and a potential approach to narrow-scope standard setting (see IASB staff agenda paper [here](#)). The IASB tentatively decided:
 - (a) to undertake narrow-scope standard-setting to amend IFRS 9 Financial Instruments, with the next project milestone to be an exposure draft; and

- (b) to explore an approach to this standard-setting that includes amending the ‘own use’ and hedge accounting requirements in IFRS 9.

Background of the EFRAG project

- 5 The EFRAG Secretariat had a session at the joint EFRAG FRB & FR TEG meeting of 19 December 2023. The purpose of the session was to discuss the research made by the IASB staff on the prevalence and potential standard setting approaches towards PPAs and vPPAs and the recommendations to the IASB on how to move forward. The EFRAG Secretariat also introduced an alternative model that could solve the issues raised by stakeholders around PPAs (see [here](#) agenda papers discussed at the joint EFRAG FRB & FR TEG meeting of 19 December 2023). A summary of the discussions of the meeting is included as Appendix 1 of agenda paper 01-02.
- 6 The EFRAG Secretariat has also held private meetings with EFRAG’s working groups and other stakeholders during the last quarter of 2023 to discuss potential solutions to the issues raised by stakeholders on PPAs and vPPAs as well as EFRAG’s alternative model.

Key discussion points for the session

- 7 Agenda paper 01-02 discusses potential standard setting approaches proposed by the IASB staff towards PPAs and vPPAs. We would like to obtain feedback on the approaches presented by the IASB and on potential additional approaches suggested by EFRAG FR TEG-CFSS members, if any, in anticipation of the ASAF meeting to be held on 29 January 2024.

Next steps

- 8 The EFRAG Secretariat to take the remarks and observations provided by FR TEG-CFSS members into consideration to provide a response to the questions raised by the IASB to ASAF members in the ASAF meeting that will take place on 29 January 2024.
- 9 The EFRAG Secretariat to follow the IASB discussions on the project and to gather feedback from constituents.

Agenda Papers

- 10 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 01-02 – EFRAG secretariat paper – Issues Paper; and
 - (b) Agenda paper 01-03 – IASB staff paper – ASAF paper January 2024 (for background purposes).