



International Accounting Standards
Board (IASB)
Dr Andreas Barckow, Chair
30 Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

10 July 2023

Dear Dr Barckow,
Dear Members of the International Accounting Standards Board,

Re: Application of the 'Own Use' Exception in the Light of Current Market and Geopolitical Questions

We write to you in response to the decision of the IFRS Interpretations Committee ("IFRS IC") regarding the application of the 'own use exception' of IFRS 9 to power purchase agreements.

Within the discussion of the IFRS IC, it has been mentioned that only few responses to the post implementation review of IFRS 9 Phase 1 ("the PIR") had included the issue. However, we think that the PIR has not been the right occasion since the requirements of the 'own use exception' have been carried over from IAS 39 unchanged. The issue at hand is one that is just arising and will continue to become more widespread.

BusinessEurope fully agrees with the IFRS IC to refer the matter submitted to it to the IASB for its consideration. We are aware that especially contracts that require companies to take delivery of energy at the time and in the amount of their production, become more common and represent an important instrument for companies' supply of renewable energy. Given the need for companies to undergo a transition towards carbon neutrality, we think that it is of utmost importance that such instruments are represented in the financial statements in the most useful manner.

BusinessEurope is of the view that such contracts, especially those as presented in fact pattern 1 of the IFRS IC submission ('purchase-as-produced contracts'), should not be recognized as derivative financial instruments. The resulting volatility in the statement of financial performance prior to the actual consumption of the energy does not only disincentive companies from entering in such contracts but does also not represent the economic substance of the transaction, which is securing access to and consumption of renewable energy.

In addition, we note that under current US-GAAP, such contracts are not regarded as derivative financial instruments because of the lack of a notional amount. This also applies to virtual PPAs that usually meet the definition of a derivative financial instrument



in accordance with IFRS as they are structured as 'contracts for differences'. In some markets – such contracts are the only available instruments to procure renewable energy. Companies thus could be disincentivised to use these instruments because of the necessity to apply fair value measurement to them. The IASB therefore should consider looking at the issue under the inclusion of all relevant types of instruments.

We further stress that – since such contracts are becoming more common – a timely solution is important. We therefore ask the IASB to give priority to this request and deliver adequate solutions as fast as possible. We recognize that the one of the major hurdles for these contracts is the lack of feasible storage of energy. While also the technology in the field of batteries is evolving quickly, we are not convinced that storing energy will become feasible and economically reasonable for companies in the near future. Therefore, we believe that the issue at hand will be a prevailing one and that narrow scope standard setting is the first best solution.

We will be happy to discuss our comments at your convenience and remain at your disposal.

Yours sincerely,

Erik Berggren
Senior Adviser