International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

16 August 2021

Ms. Sue Lloyd
Chair of the IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Our REF: 2021/O/C1/IFRIC/MS/55

RE: Tentative Agenda Decision – Economic Benefits from Use of a Windfarm (IFRS 16)

Dear Ms. Lloyd,

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Auditing and Disclosure (Committee 1) thanks you for the opportunity to provide our comments on the IFRS Interpretations Committee (IFRS IC) tentative agenda decision, *Economic Benefits from Use of a Windfarm* (TAD).

IOSCO is committed to promoting the integrity of the international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

We appreciate the IFRS IC addressing this topic to support preparers in their application of International Financial Reporting Standard (IFRS) 16, *Leases* (IFRS 16) to the fact pattern submitted. However, we worry that any final agenda decision that is limited to just the specific question raised in the submission could give readers a misimpression of the steps needed in a more complete accounting analysis. Absent such an analysis, we worry that the narrowness of the agenda decision could lead to more diversity in practice in light of the remaining unanswered questions surrounding this fact pattern. Therefore, we believe a final agenda decision should highlight to readers additional questions that the electricity retailer would have to consider both before and after answering this specific question that will be important when accounting for the transaction.

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First, we note that the electricity retailer would be required to perform an analysis of whether it is required to consolidate the windfarm in accordance with IFRS 10, *Consolidated Financial Statements.* In particular we note that the fact pattern states that the retailer was involved in the determination of the purpose and design of the windfarm and the windfarm's activities are largely, if not completely, predetermined. Additionally, we note that the contract between the retailer and the windfarm gives the retailer exposure to variability in returns. We note this analysis is relevant when the retailer prepares consolidated financial statements, because if the retailer is required to consolidate the windfarm that would obviate the question of whether a lease exists with respect to the retailer's consolidated financial statements.

Next (assuming the retailer does not consolidate the windfarm or for purposes of preparing separate financial statements), we believe a final agenda decision should address both criteria in paragraph B9 of IFRS 16. Most members agree with the analysis and conclusion reached in the TAD that criterion B9(a) would not be met, while one member believes that criterion would be met based on an evaluation of the substance of the whole arrangement, which is only necessary because the retailer and windfarm must buy and sell electricity from and to an intermediary. Further, we believe an opportunity exists to assist readers in making the determination required by subparagraph B9(b). Specifically, we believe reference could be made to the January 2020 final agenda decision, *Definition of a Lease—Decision-making Rights*, which discussed an analysis of that criterion when many, but not all, decisions about how and for what purpose an asset is used are predetermined.

Finally, we note that upon concluding that the retailer is not required to consolidate the windfarm (or is preparing separate financial statements) nor that the contract contains a lease (including an explanation as to the application of both criteria in paragraph B9 of IFRS 16), any final agenda decision should provide considerations for the potential accounting for the contract. Specifically, the electricity retailer would need to consider whether it would be required to account for the contract as a derivative (including application of exemptions to derivative accounting) and potentially as a cash flow hedge in accordance with IFRS 9, *Financial Instruments*, and if not what accounting guidance would apply. Further, the retailer would need to consider how to account for the renewable energy credits received. Absent a more holistic analysis by the IFRS IC, we worry that there will be diversity in practice since an answer to whether IFRS 16.9B(a) applies is only one of the many accounting conclusions that are needed to determine the appropriate accounting for the arrangement.

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We appreciate your thoughtful consideration of the views provided in this letter.

If you have any questions or need additional information, please do not hesitate to contact Cameron McInnis, Chair of the Accounting Subcommittee of Committee 1 at +1 416-593-3675 or myself. In case of any written communication, please mark a copy to me.

Yours sincerely,

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