

25 November 2025

International Accounting Standards Board
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Dear Sir/Madam

SAICA SUBMISSION ON TENTATIVE AGENDA DECISION: *ECONOMIC BENEFITS FROM USE OF A BATTERY UNDER AN OFFTAKE ARRANGEMENT (IFRS 16)*

In response to your request for comments on Tentative Agenda Decision: *Economic Benefits from Use of a Battery under an Offtake Arrangement (IFRS 16)*, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, preparers, regulators, auditors, IFRS specialists, investment analysts and academics.

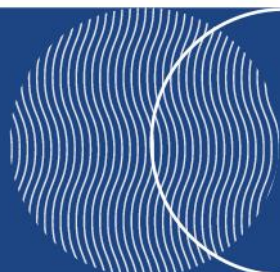
We thank you for the opportunity to provide comments on this Tentative Agenda Decision.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Prof Ahmed Mohammadali-Haji
Chairperson: APC

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Lead: Financial Reporting

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SAICA SUBMISSION ON TENTATIVE AGENDA DECISION: *ECONOMIC BENEFITS FROM USE OF A BATTERY UNDER AN OFFTAKE ARRANGEMENT (IFRS 16)*

Overview

The Committee received requests about how an entity applies the requirements in paragraph B9(a) of IFRS 16—specifically, how an entity determines whether a customer has the right to obtain substantially all of the economic benefits from use of an identified asset. The requests illustrate the question by describing a fact pattern involving a battery offtake arrangement.

Fact pattern

In the fact pattern described in the requests, a battery owner and an electricity retailer are registered participants in a gross pool electricity market.

The battery owner and the electricity retailer enter into a battery offtake arrangement. Under the terms and conditions of the offtake arrangement, the battery owner retains custody of the battery but is contractually obliged to operate it in accordance with the electricity retailer's instructions, which cover 100% of the capacity of the battery; the battery cannot be substituted. The electricity retailer's instructions would typically specify whether and when the battery owner charges and discharges the battery. The electricity retailer can instruct the battery owner to charge and discharge the battery throughout the period of use (including multiple times during each day).

In a gross pool electricity market, settlement of electricity transactions requires a single registered participant to transact with the market operator. As the battery owner is the registered participant, transactions occurring under the offtake arrangement are settled as follows:

1. the electricity retailer pays a fixed amount to the battery owner over the period of the contract for the right to use the battery. This fixed amount reflects the size of the battery and the period of use and is payable regardless of whether the battery is charged or discharged.
2. the battery owner operates the battery according to the electricity retailer's instructions by buying and selling electricity and settles those transactions with the market operator. In accordance with the gross pool market structure, all transactions with the market operator occur at the spot price. The battery owner pays the resulting cash flows to (or receives the resulting cash flows from) the electricity retailer.
3. the battery owner and the electricity retailer settle transactions in (a) and (b) periodically, net in cash.

Paragraph 9 of IFRS 16 states that 'a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration'. Applying paragraph B9 of IFRS 16, to assess whether a contract conveys the right to control the use of an identified asset for a period of time, the customer—throughout the period of use—must have *both*:

1. the right to obtain substantially all of the economic benefits from use of the identified asset; *and*
2. the right to direct the use of that asset.

The fact pattern described in the requests assumes that the electricity retailer has the right to direct the use of the battery (paragraph B9(b) of IFRS 16). The requests ask whether, under the offtake arrangement, the electricity retailer has the right to obtain substantially all of the economic benefits from use of the battery (paragraph B9(a) of IFRS 16).

Applying IFRS 16 to the fact pattern.

Does the electricity retailer have the right to obtain substantially all of the economic benefits from use of the battery (paragraph B9(a) of IFRS 16)?

Paragraph B21 of IFRS 16 specifies that 'a customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, holding or sub-leasing the asset. The economic benefits from use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits from using the asset that could be realised from a commercial transaction with a third party.'

The Committee observed that, in the fact pattern described in the requests, the economic benefits from use of the battery are derived from its storage capability and capacity; the battery is used to store, and then release, electricity.

The Committee also observed that the battery offtake arrangement provides the electricity retailer with the economic benefits derived from the battery storage because the electricity retailer has the exclusive right:

1. to use the entire capacity of the battery throughout the period of use (for the duration of the arrangement); and
2. to direct the battery owner as to whether, when and by how much to charge and discharge the battery.

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Therefore, applying paragraph B21 of IFRS 16 to the fact pattern, the Committee concluded that the electricity retailer has the right to obtain substantially all of the economic benefits from use of the battery.

Does the electricity retailer have the right to direct the use of the battery (paragraph B9(b) of IFRS 16)?

The Committee observed that an entity, in determining whether it has the right to direct the use of an identified asset, considers the terms and conditions of the arrangement and all relevant facts and circumstances. Because the fact pattern described in the requests assumes that the electricity retailer has the right to direct the use of the battery, the Committee did not analyse the application of paragraph B9(b) of IFRS 16 to the fact pattern.

Conclusion

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an electricity retailer, as the customer in a battery offtake arrangement as described in the requests, to determine whether it has the right to obtain substantially all of the economic benefits from use of the battery. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

SPECIFIC COMMENTS

We do not have any specific comments on this agenda decision. We agree with the conclusion reached by the IASB staff and that there is sufficient guidance available on this matter.