

WG1 I CHANGES IN RISK MANAGEMENT STRATEGY, DISCONTINUANCE AND RESTART OF RMA AND RMA CYCLE ACCOUNTING ENTRIES

European Banking Federation aisbl

Brussels / Avenue des Arts 56, 1000 Brussels, Belgium / +32 2 508 3711

Frankfurt / Weißfrauenstraße 12-16, 60311 Frankfurt, Germany

EU Transparency Register / ID number: 4722660838-23



www.ebf.eu

Information sheet

<i>Title</i>	WG1 I CHANGES IN RISK MANAGEMENT STRATEGY, DISCONTINUANCE AND RESTART OF RMA AND RMA CYCLE ACCOUNTING ENTRIES
<i>Paper writer</i>	EBF Hedge Accounting Workgroup
<i>Type of paper</i>	Interpretation/clarification
<i>(1) Interpretation/clarification</i> <i>(2) Fatal flaw: request/demand for change</i>	
<i>Adjustment required for RMA?</i>	Yes
<i>Conceptual issue?</i>	No
<i>RAG¹</i>	

¹ Please refer to the latest version of the document "Definition of Traffic Light Colouring/System" for the corresponding definition of the traffic light system applied

Contents

Introduction	4
Background	4
Regulation.....	5
Applicable law and articles (accounting and/or regulatory).....	5
7.5 Discontinuation of risk mitigation accounting	5
Recognising and measuring the risk mitigation adjustment	5
Discontinuation of risk mitigation accounting (Section7.5)	6
Proposed treatment.....	9
Examples	10
Simple example	10
Scaled example.....	10
Operability concerns	11
Conclusion.....	12
Appendix 1: Accounting entries.....	13
RMA cycle accounting entries	13
Key accounting elements.....	15

Introduction

Background

The Risk Management Accounting (RMA) model is designed to reflect how entities actively manage repricing risk in the banking book through a dynamic, portfolio-based approach. Within this framework, the requirements addressing changes in risk management strategy, discontinuation and restart of RMA, and the accounting treatment of accumulated risk mitigation adjustments are closely linked and must be interpreted consistently to avoid outcomes that are disconnected from actual risk management.

During EBF expert group discussions, broad agreement emerged that the Exposure Draft's overall approach to discontinuation and restart of RMA is conceptually sound. However, the group observed that the requirements may be misinterpreted if changes in underlying business activity, portfolio composition or modelling parameters are read as automatic triggers for discontinuation, rather than being assessed based on whether the RMA model continues to represent risk management in substance.

The expert group consistently emphasised that discontinuation of RMA should be rare and exceptional, reflecting the fact that risk management itself is continuous and does not operate through discrete stop-and-restart events. Accordingly, the assessment of discontinuation should be judgement-based, focusing on the continued representational capability of the RMA model rather than on the mere occurrence of change.

The existence of change alone does not justify discontinuation.

RMA should be discontinued only when the model can no longer represent risk management in substance.

Accordingly, this paper should be read as an interpretation of the Exposure Draft, not as the introduction of new thresholds or mechanical triggers. Its objective is to clarify how the existing requirements can be applied in a principle-based manner that preserves the alignment between accounting outcomes and risk management practice, while avoiding unnecessary discontinuation, operational burden, or accounting volatility.

The section on Accounting Entries is immature at this stage in the project and has been removed to the Appendix as a placeholder, to be updated once the Standard has been revised and stabilised.

Regulation

Applicable law and articles (accounting and/or regulatory)

7.5 Discontinuation of risk mitigation accounting

- ED 7.5.1 An entity that chooses to apply risk mitigation accounting shall not discontinue risk mitigation accounting unless there is a change in the entity's risk management strategy. If such a change occurs, the entity shall discontinue risk mitigation accounting prospectively from the date the change is made.
- ED 7.5.2 For the purpose of applying paragraph 7.5.1, a change in an entity's risk management strategy refers to a change in how the entity manages repricing risk. Such changes might include a change to the market interest rate identified as the mitigated rate or to the measures the entity uses to quantify the net repricing risk exposure. Changes in the entity's risk management activities in response to frequent changes in the entity's exposure to repricing risk do not constitute a change in the entity's risk management strategy. Therefore, an entity shall not discontinue risk mitigation accounting in response to changes of this type.
- ED 7.5.3 An entity that discontinues risk mitigation accounting shall account for the amount accumulated as the risk mitigation adjustment in accordance with paragraphs 7.4.8–7.4.14 as follows:
- (a) if the repricing differences from the financial instruments in the underlying portfolios are still expected to affect profit or loss, the entity shall recognise in profit or loss the amount accumulated as the risk mitigation adjustment:
 - (i) in accordance with paragraph 7.4.10; or
 - (ii) on another systematic and rational basis, which could include a straight-line basis; and
 - (b) if the repricing differences from the financial instruments in the underlying portfolios are no longer expected to affect profit or loss, the entity shall immediately recognise in profit or loss the amount accumulated as the risk mitigation adjustment.

Recognising and measuring the risk mitigation adjustment

- ED 7.4.10 The amount accumulated as the risk mitigation adjustment shall be recognised in profit or loss in the same reporting periods during which the repricing differences arising from the financial instruments in the underlying portfolios affect profit or loss.
- ED B7.1.6 An entity's risk management strategy is established at the highest level at which an entity determines how the entity manages repricing risk. Risk management strategies typically identify the risks to which the entity is exposed and set out how the entity responds to them. A risk management strategy is typically in place for an extended period and may include some flexibility to react to changes in circumstances that occur while that strategy is in place. This strategy is normally set out in a general document that is

cascaded down through an entity through policies containing more specific guidelines.

Discontinuation of risk mitigation accounting (Section 7.5)

- ED B7.5.1 An entity is required to apply judgement to determine whether there is a change in its risk management strategy, as described in paragraph B7.1.6, that requires the entity to discontinue risk mitigation accounting in accordance with paragraph 7.5.1.
- ED B7.5.2 Changes to an entity's risk management strategy are expected to be infrequent and usually do not occur in isolation. Instead, they are likely to be the result of internal or external factors that are expected to affect the entity's business operations to an extent that necessitates a change in how the entity manages repricing risk. Generally, changes to an entity's business operations that necessitate a change in its risk management strategy are demonstrable to the entity's internal and external stakeholders.
- ED B7.5.3 The following examples illustrate changes in an entity's risk management strategy that require the entity to discontinue risk mitigation accounting. The list is not exhaustive.

Nature of the change	Analysis
A consolidated group decides to expand its operations to additional jurisdictions. The group concludes that a group-level risk management strategy no longer fairly represents how the group aims to mitigate repricing risk because of the expansion of its activities. The group therefore decides to change its risk management strategy to mitigate repricing risk at a subsidiary level instead.	The entity concludes there has been a change in its risk management strategy. Therefore, the entity discontinues risk mitigation accounting at a group level. The change in the level at which repricing risk is mitigated represents a change in how the group mitigates repricing risk. The effects of applying risk mitigation accounting based on a group-level-only risk management strategy are no longer consistent with how the group will mitigate repricing risk. Therefore, applying risk mitigation accounting on the same basis as the group had done previously would no longer provide useful information about how the group is mitigating repricing risk.

Nature of the change	Analysis
An entity's risk management strategy specified a mitigated time horizon of 10 years for managing repricing risk, which aligns with the period of the entity's lending strategy. Due to changes in the entity's external environment, the time frame of the entity's lending strategy is shortened to three years. As a result, the entity enters into new designated derivatives to manage repricing risk over a three-year time horizon instead.	The entity concludes there has been a change in its risk management strategy. Therefore, the entity discontinues risk mitigation accounting on a 10-year mitigated time horizon. The change in the time frame of the entity's lending strategy from 10 years to three years, and the corresponding change in the mitigated time horizon, indicate a change in how the entity will mitigate repricing risk in future periods in accordance with its revised risk management strategy. Therefore, applying risk mitigation accounting consistent with the original lending strategy would no longer be consistent with the entity's risk management strategy and would not provide useful information.
An entity previously used a cash flow-based measure for repricing time bands of up to 24 months, in accordance with its risk management strategy. However, due to changes in the entity's prudential regulatory environment, the entity decides to use a fair value-based measure for those repricing time bands instead. Consequently, the entity changes the measures it uses to quantify repricing risk in those repricing time bands and how it manages repricing risk for those repricing time bands to ensure it achieves the new objectives.	The entity concludes there is a change in its risk management strategy. Therefore, the entity discontinues risk mitigation accounting based on a cash flow-based measure and instead applies risk mitigation accounting based on a fair value-based measure. The risk mitigation adjustment that was based on a cash flow-based measure over the short term will not provide useful information about the entity's revised risk management strategy.

Nature of the change	Analysis
After reviewing its business strategy, an entity that previously focused on the UK market decides to expand its operations into Europe. This expansion in operations leads to a large increase in underlying portfolios denominated in euros. Consistent with its revised business strategy, the entity changes its risk management strategy and begins managing its underlying portfolios against changes in Euro Interbank Offered Rate (EURIBOR) instead of Sterling Overnight Index Average (SONIA). Accordingly, the entity changes its mitigated rate from SONIA to EURIBOR for the purposes of applying risk mitigation accounting.	The entity concludes that the change in the mitigated rate is a change in its risk management strategy. Therefore, the entity discontinues risk mitigation accounting based on the previous mitigated rate. Following the changes in the entity's business strategy and risk management strategy, the entity will no longer manage repricing risk based on SONIA. Instead, the entity will use EURIBOR as the mitigated rate for determining its net repricing risk exposure, specifying the risk mitigation objective and entering into designated derivatives. Therefore, the previous risk mitigation accounting will no longer provide useful information about the effects of the entity's future risk management activities.

ED B7.5.4 Changes in an entity's risk management activities, which reflect the frequent changes in its exposure to repricing risk, typically occur more frequently than changes in the entity's risk management strategy. Changes in risk management activities might include:

- (a) changes to the risk mitigation objective;
- (b) changes to the risk limits within which the net repricing risk exposure can vary;
- (c) changes to the underlying portfolios that are used to determine the net repricing risk exposure; and
- (d) changes to the designated derivatives.

ED B7.5.5 Changes that reflect the frequent changes in an entity's exposure to repricing risk can be appropriately accounted for when the entity applies risk mitigation accounting—for example, by adjusting the benchmark derivatives as required by paragraph 7.4.6. Therefore, such changes do not constitute a change in the risk management strategy that require the entity to discontinue risk mitigation accounting.

Proposed treatment

While the Proposed Treatment below aims to provide clarity on discontinuation and restart of RMA, its current articulation may be read as event-driven rather than principle-driven. By focusing on identifying circumstances that may be associated with a change in risk management strategy, it risks implying that certain changes in volumes, assumptions or portfolio structure necessarily require discontinuation, even where the underlying risk management objective, governance and steering logic remain unchanged.

This reading does not fully align with the agreed guiding principle that discontinuation should occur only when the RMA model is no longer capable of representing risk management in substance. Changes in business activity, customer behaviour or modelling parameters may affect how RMA is applied, but do not in themselves demonstrate that the entity's risk management strategy has changed or that the model has ceased to be representative.

Consequently, the Proposed Treatment, as currently framed, may lead to discontinuation decisions that are disconnected from the substance of risk management and driven instead by the occurrence of specific events or changes.

The Exposure Draft, as written, both prohibits discretionary discontinuation of RMA and requires discontinuation when the original risk management strategy is no longer applied.

A substantive change in risk management strategy that invalidates the original RMA objective requires mandatory discontinuation of RMA. Examples may include changes in steering logic, centralisation versus decentralisation of risk management, changes to the risk horizon that alter the risk management objective, or situations where designated derivatives become irrelevant.

Upon discontinuation, cumulative RMA balances are frozen and amortised on a systematic and rational basis unless future cash flows cease, in which case remaining balances are recognised directly in profit or loss.

Restarting RMA constitutes a new designation. Previous RMA balances must not be recycled into the new RMA model, and benchmark derivatives are re-established as part of the new designation, with the starting point determined in accordance with the applicable RMA requirements.

Examples

Simple example

Nature of the change	Analysis
An entity's risk management strategy specified a mitigated time horizon of 10 years for managing repricing risk, which aligns with the period of the entity's lending strategy. Due to changes in the entity's external environment, the time frame of the entity's lending strategy is shortened to three years. As a result, the entity enters into new designated derivatives to manage repricing risk over a three-year time horizon instead.	The entity concludes there has been a change in its risk management strategy. Therefore, the entity discontinues risk mitigation accounting on a 10-year mitigated time horizon. The change in the time frame of the entity's lending strategy from 10 years to three years, and the corresponding change in the mitigated time horizon, indicate a change in how the entity will mitigate repricing risk in future periods in accordance with its revised risk management strategy. Therefore, applying risk mitigation accounting consistent with the original lending strategy would no longer be consistent with the entity's risk management strategy and would not provide useful information.

In this example, an entity applying an RMA model adjusts its risk steering horizon from medium-term to short-term. While this change affects how risk is measured and operationally managed, it does not represent a change in risk management strategy in substance, as the objective and governance of repricing risk management remain unchanged and the RMA model continues to reflect how risk is managed.

However, if the Proposed Treatment were interpreted mechanically, this change could be read as requiring discontinuation of RMA, followed by amortisation of accumulated balances and restart of the model. Such an outcome would be inconsistent with the guiding principle that RMA should continue to be applied whenever the model remains capable of representing risk management and would introduce accounting effects driven by mechanics rather than by substantive change.

Requiring discontinuation in this circumstance would be operationally burdensome and would introduce unnecessary accounting noise arising solely from the interaction of discontinuation, amortisation, and restart mechanics, rather than from any substantive change in risk management.

Scaled example

N/A

Operability concerns

Implications of the misalignment

If the Proposed Treatment is applied without explicit reference to representational capability as the governing principle, entities may be required to discontinue and restart RMA in circumstances where risk management has not changed in substance. This could result in:

- unnecessary operational complexity through frequent RMA restarts,
- artificial accounting volatility arising from re-designation and amortisation mechanics, and
- outcomes that are less representative of risk management than continued application of the existing model.

These effects are contrary to the objective of RMA and highlight the need to realign the Proposed Treatment with a principle-based assessment focused on representational capability rather than on the presence of specific events.

Conclusion

We consider the overall framework for discontinuation and restart of Risk Mitigation Accounting (RMA) to be directionally appropriate. However, the current interpretation of the Proposed Treatment does not consistently reflect the fundamental requirement that RMA should continue to be applied as long as the accounting model remains capable of representing risk management in substance.

The existence of change alone does not justify discontinuation. Risk management is inherently dynamic, and changes in business activity, portfolio composition, behavioural assumptions or modelling inputs are expected to occur within an unchanged risk management framework. Discontinuation of RMA is justified only when, despite reasonable adaptation, the accounting model can no longer represent risk management in substance.

Discontinuation is justified only when the RMA model can no longer represent risk management in substance.

Where the interpretation places emphasis on the occurrence of particular changes or circumstances, rather than on an explicit assessment of the model's continued representational capability, there is a risk that discontinuation decisions become event-driven rather than requirement-based. Such outcomes would be inconsistent with the objective of RMA and could lead to unnecessary disruption, operational complexity, and accounting effects that are not grounded in changes to risk management itself.

Re-anchoring the interpretation of discontinuation and restart firmly to the requirement that RMA should be discontinued only when the model no longer represents risk management in substance would strengthen consistency and auditability, preserve alignment between accounting and risk management, and ensure that well-functioning RMA models are not discontinued inappropriately.

Appendix 1: Accounting entries

This section is a placeholder and should be completed in detail once the ED / Standard has been revised and stabilised.

RMA cycle accounting entries

For the purposes of this paper, the application of Risk Management Accounting (RMA) is described as an accounting cycle that reflects the lifecycle of an entity's risk management strategy and the accounting consequences that arise as that strategy evolves.

The RMA cycle comprises the following interrelated stages:

- (a) Initial designation
An entity designates RMA based on its documented risk management strategy, including the identified repricing risk, steering logic, target profile and benchmark derivatives. From this point, RMA is applied prospectively in accordance with the Exposure Draft.
- (b) Ongoing application and measurement
During the ongoing phase, the entity applies RMA consistently with its documented strategy. This includes recognising and measuring the risk mitigation adjustment and performing ongoing remeasurement in line with the RMA requirements, reflecting changes in repricing risk exposures and adjustments to benchmark derivatives that arise from normal risk management activities.
- (c) Discontinuation triggered by a change in risk management strategy
RMA is discontinued when, and only when, there is a change in the entity's risk management strategy. Discontinuation is mandatory where the original strategy, steering logic or target profile is no longer valid. Routine changes in risk management activities that reflect frequent changes in repricing risk exposures do not, in isolation, trigger discontinuation.
- (d) Accounting for accumulated risk mitigation adjustments
Upon discontinuation, the accumulated risk mitigation adjustment is frozen and accounted for separately from any subsequent RMA application. Where repricing differences from the underlying portfolios are still expected to affect profit or loss, the accumulated adjustment is recognised in profit or loss on a systematic and rational basis. Where such repricing differences are no longer expected to affect profit or loss, the remaining balance is recognised immediately in profit or loss.
- (e) Restart of RMA as a new designation (RMA is optional)
If an entity subsequently implements a revised risk management strategy that meets the requirements for RMA, a restart represents a new designation and a new RMA cycle. A restart is not a continuation of the previous RMA cycle. Accumulated risk mitigation adjustments arising from a discontinued RMA cycle are not carried forward into a new RMA application.
Accordingly, multiple RMA cycles may coexist operationally within an entity, reflecting changes in risk management strategy over time. Clear segregation of discontinued RMA balances from newly designated RMA cycles is necessary to maintain transparency, explainability of profit or loss effects, and faithful representation of risk management.
Discontinuation and restart represent distinct points in the RMA cycle. A restart of RMA does not constitute a continuation of the previous cycle. Any accumulated risk mitigation adjustments from a discontinued RMA cycle are not carried forward into a new RMA designation.

Within each RMA cycle, the risk mitigation adjustment gives rise to debit and credit entries between a balance-sheet adjustment and profit or loss. Discontinuation freezes the accumulated balance. Subsequent amortisation or release is recognised in profit or loss without affecting net interest income. A restart of RMA does not give rise to transfer entries between discontinued and newly designated cycles.

More detail on the accounting entries themselves is included in the appendix to this document.

Key accounting elements

Under RMA, three elements are relevant:

- 1. Designated derivatives**
Recognised at fair value through profit or loss (FVPL) in accordance with IFRS 9.
- 2. Risk mitigation adjustment (RMA adjustment)**
A balance sheet adjustment (asset or liability) representing the cumulative alignment between benchmark derivatives and designated derivatives.
- 3. Profit or loss (P&L)**
Where derivative fair value movements and amortisation or release of the RMA adjustment are recognised.

1. Initial Designation of RMA

- a. Economic substance**
RMA is applied prospectively. Benchmark derivatives are constructed with a zero fair value at inception. No past performance is recognised.
- b. Accounting entries**
No entry is recorded for the RMA adjustment at designation.

2. Ongoing application of RMA

- a. Fair value change of designated derivatives**
If designated derivatives incur a fair value loss (If a fair value gain, entries are reversed)
Debit: RMA adjustment (asset)
Credit: Profit or loss
- b. Recognition of the RMA adjustment**
The RMA adjustment offsets the benchmark derivative movement.
If the benchmark derivatives indicate a gain:
Debit: RMA adjustment (asset)
Credit: Profit or loss
If the benchmark derivatives indicate a loss:
Debit: Profit or loss
Credit: RMA adjustment (liability)
The combined effect ensures that profit or loss reflects the risk management outcome intended under the RMA model.

3. Routine changes during ongoing application

- a. Examples include:**
Portfolio churn
Rebalancing of benchmark or designated derivatives
Changes in modelling assumptions
- b. Accounting treatment**
The same debit and credit mechanics as in Section 2 apply.
Only the amount of the RMA adjustment is updated.
Changes in market interest rates (mitigated rate) affecting the fair values of designated and benchmark derivatives

No discontinuation, freezing, or reset occurs.

4. Discontinuation of RMA

Discontinuation occurs only when the RMA model can no longer represent risk management in substance.

a. Accounting consequence

No immediate debit or credit is recorded solely because RMA is discontinued. The accumulated RMA adjustment is frozen at the discontinuation date.

5. Accounting for the accumulated RMA adjustment after discontinuation

a. Case A – Repricing differences in the NRRE still expected to affect profit or loss

The frozen RMA adjustment is amortised on a systematic and rational basis. If the RMA adjustment is a liability:

Debit: RMA adjustment (liability)

Credit: Profit or loss

If it is an asset, the entries are reserved.

b. Case B – Repricing differences in the NRRE no longer expected to affect profit or loss

The remaining RMA balance is released immediately.

If the RMA adjustment is a liability:

Debit: RMA adjustment (liability)

Credit: Profit or loss

If it is an asset, the entries are reserved.

6. Restart of RMA as a new designation

A restart represents a new RMA cycle.

a. Accounting treatment

No transfer or recycling entry is recorded.

Existing discontinued RMA balances continue to amortise independently.

The new RMA cycle starts with benchmark derivatives at zero fair value.

WG2 I RMA EXCESS

Information sheet

<i>Title</i>	WG2 I RMA EXCESS
<i>Paper writer</i>	EBF Hedge Accounting Workgroup
<i>Type of paper</i>	Fatal flaw: request/demand for change
<i>(3) Interpretation/clarification</i> <i>(4) Fatal flaw: request/demand for change</i>	
<i>Adjustment required for RMA?</i>	Yes
<i>Conceptual issue?</i>	Yes
<i>RAG²</i>	

² Please refer to the latest version of the document "Definition of Traffic Light Colouring/System" for the corresponding definition of the traffic light system applied

Contents

Introduction	20
Background	20
Regulation.....	21
Applicable law and articles (accounting and/or regulatory).....	21
Proposed treatment.....	23
Examples	24
Simple example	24
Scaled example.....	24
Operability concerns	25
Accounting volatility concerns	26
Proposal.....	27
Background	27
Conceptual considerations	27
Regulatory mitigation.....	27
For Exploration – Treatment of derecognitions	29
A. Penalised Derecognitions	29
B. Non penalised derecognitions.....	29
Accounting considerations	29
Conclusion.....	31
Appendix/Supporting documentation	32

Introduction

Background

The IASB published the Exposure Draft on Risk Mitigation Accounting on 3 December 2025 and invited stakeholders to provide feedback on the proposed requirements. To support the development of a robust, evidence-based comment letter, the banking industry decided to perform a field test of the RMA requirements. The deadline for submitting the comment letter is aligned with the IASB's fieldwork submission deadline, with both submissions due by 30 November 2026.

The banking industry sees some major challenges/issues concerning inconsistent treatment in accounting for what is essentially the same situation in risk management. This paper addresses the concerns around the concept of the RMA Excess. Independently of this, this paper also explores penalised de-recognitions as proposed by some banks.

While views differ among participants on the treatment of certain edge interactions, there is broad agreement that the Excess mechanism itself is structurally deficient.

The purpose of this paper is not to refine or optimise the RMA Excess test, but to demonstrate that—under realistic operating conditions—the test cannot function as intended. The issues identified are not attributable to calibration choices, modelling assumptions, or implementation shortcomings, but to the structural design of the backstop itself.

While the IASB's objective of avoiding unsupported risk mitigation adjustment balances is understood, there is broad agreement between banks that the concern cannot be addressed through a mechanical excess test based on a present-value comparison. The analysis in this paper therefore focuses on the structural design of the RMA Excess mechanism, rather than on the underlying principle that an entity should reassess whether an accumulated RMA balance remains appropriate.

Regulation

Applicable law and articles (accounting and/or regulatory)

- ED 7.4.11 An entity shall assess at each reporting date whether there is an indication that the amount accumulated as the risk mitigation adjustment might not be realised in full over the mitigated time horizon. This situation would arise if there were unexpected changes in the net repricing risk exposure during the reporting period that have not been fully reflected in the adjustments to the benchmark derivatives in accordance with paragraphs 7.4.6–7.4.7.
- ED 7.4.12 If such an indication exists, the entity shall determine whether the amount accumulated as the risk mitigation adjustment exceeds the present value of the net repricing risk exposure as at the reporting date.
- ED 7.4.13 The present value of the net repricing risk exposure represents the amount that would have been accumulated as the risk mitigation adjustment if the entity had fully mitigated the net repricing risk exposure as at the reporting date.
- ED 7.4.14 The present value is calculated using the mitigated rate as the discount rate. If the amount accumulated as the risk mitigation adjustment at the reporting date exceeds the fair value of the net repricing risk exposure (measured in accordance with paragraph 7.4.13), an entity shall reduce the amount accumulated as the risk mitigation adjustment by recognising the excess amount in profit or loss immediately. Any such excess amounts recognised in profit or loss shall not be reversed in future periods.
- ED 7.4.18 An entity is required to ensure that the risk mitigation adjustment remains a reasonable representation of the expected effects of repricing risk on the cash flows from, or present value of, the underlying portfolios over the mitigated time horizon. Therefore, the entity is required to assess at each reporting date whether there is an indication that the risk mitigation adjustment might not be realised in full.
- ED 7.4.19 The amount accumulated as the risk mitigation adjustment in the statement of financial position represents the effects of an entity mitigating the repricing risk arising from financial instruments in the underlying portfolios by using designated derivatives over the mitigated time horizon. When unexpected changes in the underlying portfolios occur, an entity applies paragraphs 7.4.6–7.4.7 to adjust the benchmark derivatives to reflect the effects of such changes. However, in some circumstances, an entity might not be able to adjust the benchmark derivatives to capture the effect of unexpected changes. In such circumstances, the entity would need to consider whether such changes could negatively affect its ability to realise the risk mitigation adjustment over the mitigated time horizon.
- ED 7.4.20 An entity calculates the amount that the risk mitigation adjustment would have been if the entity fully mitigated the net repricing risk exposure at the reporting date. To do so, the entity needs to calculate the fair value of the effects of repricing risk on the cash flows from, or present value of, the underlying portfolios at the reporting date. Consequently, the present value of the net repricing risk exposure is not simply the present value of the

financial instruments included in the underlying portfolios. For example, the present value of some financial instruments might be the outstanding principal amount. However, for the purpose of applying paragraph 7.4.12, an entity calculates the present value of the effects of risk mitigation. In other words, the entity deems repricing risk to have been mitigated in full.

- ED 7.4.21 An entity could use various approaches—based on reasonable and supportable information that is available without undue cost or effort—to measure the present value of the net repricing risk exposure at the reporting date. For example, the entity could approximate the effects of risk mitigation on variable-rate instruments by reference to internal derivatives used to transfer repricing risk within the reporting entity or by using internal modelling methodologies, as described in paragraph B7.2.17.
- ED 7.4.22 The amount accumulated as the risk mitigation adjustment could be either a debit or credit balance in the statement of financial position. Therefore, an entity recognising an excess amount of the risk mitigation adjustment in accordance with paragraph 7.4.14 could recognise either a gain or loss in profit or loss.
- ED 7.4.23 After recognising the excess amount of the risk mitigation adjustment in profit or loss, an entity is required to make corresponding adjustments to the amounts to be recognised in profit or loss in future periods in accordance with paragraph 7.4.10. An entity is permitted to make such adjustments on a systematic and rational basis, which could include a straight-line basis, over the mitigated time horizon.

Proposed treatment

At each reporting date the entity performs tests or reviews monitoring of unexpected changes in the period to provide assurance concerning all unexpected changes (penalized or not) that the RMA adjustment isn't supported by an existing NRRE balance.

Should such assurance not exist at the reporting date, the Exposure Draft requires application of the RMA Excess test. Although the objective of preventing unsupported balance-sheet amounts is understandable, the analysis demonstrates that the Excess mechanism as drafted is structurally unworkable. The deficiencies identified do not arise from modelling choices, calibration, or operational shortcomings, but from the mechanical design of the test itself.

In doing so, (1) the present value (PV) of the NRRE should be compared to (2) the PV of the cumulative movements of the risk mitigation adjustment. Should the cumulative present value of (1) be lower than the cumulative present value of (2), then the excess in (1) – (2) should be immediately released to the income statement by an adjustment to Benchmark Derivatives and could be a gain or a loss in the income statement. Any such adjustment would be recognised immediately in profit or loss and is not subsequently reversible, even if the present value of the NRRE were to recover in later periods.

In calculating the PV of the NRRE, the entity uses the full-mitigation amount as if the repricing risk had always been fully offset. And so, the RMA Excess calculation compares the full offset amount (discounted future cashflows) to the actual offset recorded in the cumulative RMA adjustment.

Our analysis concludes that comparing the present value of a hypothetical fully mitigated NRRE with the cumulative RMA adjustment produces results that are inherently path-dependent, sensitive to hedge timing, and disconnected from economic risk. As such, the calculation cannot be relied upon as an accounting backstop. This doesn't fail because execution is hard; it can fail even when execution is perfect.

NRRE present value in the excess calculation upon transition

For an NRRE upon transition or, similarly, a restarted model containing value at transition, the value of the NRRE for the purpose of calculating the excess would be the change in NRRE since the start of the current RMA model as this would be "the amount that would have been accumulated as the risk mitigation adjustment if the entity had fully mitigated the net repricing risk exposure as at the reporting date."

Examples

The following examples do not illustrate edge cases or poor implementation. They demonstrate that mechanically correct application of the Excess test can nevertheless produce incorrect accounting outcomes.

Simple example

RMA Excess example (based on EBF letter to the IASB July 2024)

The Excess test mechanically compares the RMA adjustment with a present value calculation of the NRRE at the end of the RMA assessment period and any excess of the RMA adjustment is released to profit or loss ("capacity shortfall").

The Excess test can mechanically generate releases to profit or loss that are unrelated to economic risk, even where hedge design, calibration and execution are fully aligned with risk-management objectives. The Excess test could result in a 100% shortfall in case of an under hedge, when not all exposures are hedged (economic under hedge). Even when the maturity and fixed rate of the NRRE and benchmark are identical. The NRRE will have a higher sensitivity than the swaps (because the notional is larger). If the values decrease, the capacity decreases at a faster pace than the RMA adjustment, potentially leading to a shortfall. This is evidenced in below example:

Item	Notional	Fixed rate	Value t=1 (bm rate = 5%)	Value t=2 (bm rate = 3%)	Notes
Loan A (capacity)	1,000,000 1% rec		-200,000	-100,000	capacity
Swap A	1,000,000 1% pay		200,000	100,000	
Benchmark der. A	1,000,000 1% pay		200,000	100,000	
Loan B (capacity)	1,000,000 5% rec		0	100,000	opposite of Loan A
Swap B	800,000 5% pay		0	-80,000	notional difference compared to swap A
Benchmark der. B	800,000 5% pay		0	-80,000	
NRRE (Loan A+B)	2,000,000 3%		-200,000	0	net capacity = 0
Designated derivatives	1,800,000 2.78%		200,000	20,000	Swaps have a non-zero value
Benchmark derivatives	1,800,000 2.78%		200,000	20,000	
RMA adjustment			-200,000	-20,000	

Scaled example

The illustrative examples in the table above demonstrate that the RMA excess test produces mechanically required adjustments that are not aligned with the direction or magnitude of underlying economic risk changes. These mechanically required adjustments arise from the path-dependent interaction between cumulative RMA movements and a hypothetical present-value measure of a fully mitigated NRRE, rather than from changes in economic exposure or deficiencies in hedge effectiveness. While the numerical examples are deliberately stylised, scaling them to a large banking-book institution (c. €500bn total assets) in fast interest-rate markets implies potentially multi-billion euro P&L effects arising solely from timing and path-dependent mechanics.

Under such conditions, the test ceases to function as a backstop against hidden losses (or gains) and instead becomes a source of systematic accounting volatility unrelated to economic performance or capital adequacy.

Operability concerns

High: Calculating the PV of the NRRE interest cash flows at each reporting date is complicated owing to the amount of data to be collected. And the calculation is furthermore, also highly error-sensitive, should the completeness and accuracy of the data collected be imperfect.

The process requires an entity to collect all the future NRRE interest cashflows from all assets and all liabilities included modelled and variable rate exposures in a complete and precise way. This is a complex exercise and requires a highly detailed level of reconciliation.

These cashflows once identified, would then need to be discounted using a verified model and applicable mitigated rate yield curves. A robust system would be required to perform the calculations and store the input and output data at the appropriate level.

To ensure consistency, a reconciliation of the period calculations would be required to demonstrate an understanding of changes and thereby reduce the risk of errors remaining undetected.

NRRE present value in the excess calculation upon transition.

For an NRRE upon transition or, similarly, a restarted model containing value at transition, tracking of the value of the NRRE since the start of the RMA model would be operationally highly complex.

Accounting volatility concerns

The proposed Excess backstop introduces accounting volatility as a structural feature of the model rather than as a response to exceptional or economically meaningful events. Its mechanics amplify timing effects, path dependence, and hedge execution differences, converting normal risk-management behaviour into immediate profit or loss impacts. As a result, the test produces accounting outcomes that are disconnected from underlying economic performance, capital adequacy, and the institution's ability to absorb losses over time.

The illustrative examples demonstrate that the backstop can require sizable adjustments even when changes in the underlying NRRE are small, directionally offset, or economically neutral. In several scenarios, the test leads to RMA releases in the income statement that are driven not by changes in risk or expected losses, but by the sequencing of hedge designation, late hedge starts, or re-profiling effects that are intrinsic to macro economic hedging strategies. These outcomes are path-dependent and arise even where risk management objectives are met and the economic hedge remains effective on a portfolio basis.

These effects become more pronounced at scale and in fast-moving interest-rate environments. For large banking-book institutions, rapid interest-rate adjustments can give rise to substantial front-loaded valuation effects on benchmark derivatives while the underlying banking book continues to generate sufficient margin over time. Under such conditions, the backstop test would force the immediate recognition of large accounting losses (or gains) despite the absence of economic losses, capital shortfalls, or a deterioration in the institution's risk profile. This behaviour is not conservative; rather, it risks materially misrepresenting financial performance and obscuring the underlying economic reality.

These potential outcomes confirm that the backstop test is mathematically unsound, operationally impracticable, and capable of producing materially misleading results. The volatility it creates is structural rather than incidental and would be most acute precisely in the circumstances—large balance sheets and rapidly changing markets—where macro hedge accounting is intended to provide stability and faithful representation.

The volatility generated by the Excess test is not explanatory noise that can be tolerated or smoothed through disclosure. Rather, it represents structural mismeasurement that cannot be predicted, bounded, or independently validated by preparers, auditors, or users of financial statements.

Proposal

Background

The proposed backstop requirements do not operate as intended. They are mathematically unsound, operationally impracticable, and capable of producing economically misleading outcomes. As currently drafted, the backstop introduces failure modes that cannot be addressed through clarification or reinterpretation. Removing this mechanical backstop concept from the Exposure Draft would, in itself, constitute a material improvement.

More fundamentally, any mechanical test of this nature is prone to failure under realistic operating conditions, including large and rapid interest-rate movements, portfolio disposals, and unavoidable timing mismatches between hedging instruments and underlying exposures. These weaknesses persist even where full contractual interest cash flows are included in the NRRE calculation. The issues identified are therefore structural rather than technical and cannot be resolved through incremental adjustments or calibration changes.

The proposed Excess backstop does not operate as intended. We appreciate that it is not expected to be a common occurrence. Its reliance on a present-value comparison produces results that are path-dependent, unverifiable and disconnected from economic risk. As a result, the Excess mechanism, as drafted, represents a fatal flaw in the Exposure Draft.

Banks recognise the conceptual concern that an accumulated RMA balance should remain appropriate over time, no mechanically defined test has been identified that can address this concern in a reliable and auditable manner. Accordingly, the Excess requirements should be removed from the Exposure Draft and reconsidered only if comprehensive field testing demonstrates a clearly defined need and a demonstrably workable alternative. The issues identified are structural and cannot be resolved through clarification, alternative discounting, inclusion of margins, or revised benchmark mechanics.

Conceptual considerations

The existence of stable future interest margins highlights that economically meaningful losses are unlikely to be “hidden” in a well managed banking book. This calls into question the need for a mechanical accounting backstop test in the first place.

Clear justification for an RMA excess release exists primarily in penalised events such as early loan repayments, issued bond repurchases, or portfolio disposals, where genuine accounting volatility is created by the crystallisation of future cash flows. Even in these cases, when hedge relationships are established with a delay, determining the appropriate magnitude of any release requires judgement and cannot be reduced to a purely mechanical outcome. This is consistent with existing practice under IAS 39 AG128, which explicitly relies on a systematic and rational allocation rather than formulaic/mechanical triggers.

Regulatory mitigation

The (justified) risks that the backstop test seeks to address—namely the existence of hidden or deferred losses—are already comprehensively assessed through existing prudential frameworks. In particular, the Internal Capital Adequacy Assessment Process (ICAAP) is a forward looking, going concern assessment from a normative and economic

perspective, designed to ensure the continuity of the institution and reviewed by supervisors as part of the SREP. These frameworks explicitly incorporate uncertainty, stress, and loss absorbing capacity over time, reducing the need for an additional accounting-based backstop mechanism.

Framework	Paragraphs	Key message
EBA ICAAP GL	19, 23–24, 49	Forward-looking, supervisory backstop
ECB ICAAP Guide	15, 18–20, 32	Going concern, not valuation
Basel Pillar 2	Principle 1	Integrated risk & capital
ECB SREP	Sections 1.2, 3.1	Supervisory judgement already applied

We note that prudential frameworks already address the primary concern targeted by the Excess test—namely the existence of hidden or deferred losses—through forward looking capital, stress, and supervisory mechanisms. Introducing a parallel accounting backstop risks double counting prudential concerns in a manner that is neither transparent nor risk based.

For Exploration – Treatment of derecognitions

Notwithstanding the conclusions above, some WG2 participants noted that the accounting treatment of penalised derecognitions could be explored further as a targeted mitigation of realised volatility. This discussion is exploratory, reflects non-consensus views, and should not be interpreted as a proposed solution to the Excess backstop mechanism. This consideration is narrowly focused on circumstances where realised accounting volatility is already unavoidable due to derecognition events and should not be interpreted as an endorsement of the Excess backstop mechanism itself.

This section reflects an exploratory idea raised by some institutions. Others do not consider this interaction essential to the Excess discussion.

A. Penalised Derecognitions

Penalised derecognitions — such as the sale of amortised cost or FVOCI items — create realised accounting volatility because the measurement basis moves to FVPL upon derecognition.

- For amortised cost portfolios, the realised profit or loss reflects a change in value that is economically equivalent to the crystallisation of the embedded interest rate exposure in the derecognised item.
- For FVOCI instruments (for example, sovereign bonds held for liquidity purposes), derecognition results in:
 - the release of accumulated OCI attributable to interest rate-driven fair-value movements, and
 - a corresponding realised profit or loss in the income statement.

In this context, IFRS 9 RMA — like IAS 39 — is intended to help reduce such volatility where possible.

B. Non penalised derecognitions

Non-penalised derecognitions are treated as part of expected portfolio behaviour within the RMA model. Consequently:

- they do not ordinarily give rise to comparable realised accounting volatility, and
- they do not require benchmark-derivative adjustments unless the scale of derecognition is such that it would otherwise trigger the Excess backstop.

Accounting considerations

Paragraph B7.4.2 confirms that an entity is not required to capture all effects of unexpected changes in the NRRE. However, benchmark-derivative (BD) adjustments are required where such unexpected changes result in the cumulative NRRE falling below the value of the risk-mitigated amount.

Against this background, a limited and targeted mitigation could be considered: to reduce unnecessary accounting volatility, benchmark derivatives could be adjusted by design

when a material penalised derecognition event occurs, reflecting the fact that the underlying interest rate exposure has already been realised in profit or loss.

Operationally, this would require:

- robust identification and monitoring of penalised derecognition events, and
- a clearly defined operational trigger to ensure timely BD realignment and avoid mechanically driven Excess outcomes.

This approach is intended solely to align accounting outcomes with realised risk management events and does not address—nor resolve—the fundamental conceptual and operational deficiencies of the Excess test itself.

Conclusion

The RMA Excess test fails at a level more fundamental than volatility, complexity or calibration challenges. Its outcomes cannot be independently validated, benchmarked or falsified, leaving preparers, auditors and users without a reliable basis for assessing whether recognised gains or losses are directionally or quantitatively appropriate.

While certain derecognition events—such as sales of amortised cost or FVOCI portfolios—give rise to unavoidable realised accounting volatility through the crystallisation of interest rate exposures, these situations do not justify a broad mechanical backstop. Rather, they point to a narrow need for targeted alignment between realised risk management outcomes and benchmark derivative adjustments, applied by design and limited to clearly identifiable events. Such considerations are inherently constrained in scope and do not address, nor mitigate, the structural deficiencies of the Excess framework.

Accordingly, we recommend that the Excess requirements be removed in their entirety from the Exposure Draft and reconsidered only after comprehensive real-world field testing has demonstrated both a clear need and the feasibility of a demonstrably workable alternative. Based on current analysis, no such replacement mechanism has yet been identified that would avoid the same fundamental conceptual and operational flaws.

Appendix/Supporting documentation

N/A

WG3 I CUMULATIVE LOWER OF

Information sheet

<i>Title</i>	WG3 I CUMULATIVE LOWER OF
<i>Paper writer</i>	EBF Hedge Accounting Workgroup
<i>Type of paper</i>	Fatal flaw: request/demand for change (5) Interpretation/clarification (6) Fatal flaw: request/demand for change
<i>Adjustment required for RMA?</i>	Yes
<i>Conceptual issue?</i>	Yes
<i>RAG³</i>	

³ Please refer to the latest version of the document "Definition of Traffic Light Colouring/System" for the corresponding definition of the traffic light system applied

Contents

Introduction	36
Background	36
Regulation.....	37
Applicable law and articles (accounting and/or regulatory).....	37
Proposed treatment.....	39
Absolute amounts and directionality cumulative lower of	39
Cumulative lower of and P&L impact	39
Examples	40
Simple example	40
Simple example cumulative lower of and P&L	40
Simple example cumulative lower of and derecognition events	40
Scaled example.....	41
Operability concerns	42
Conclusion.....	43
Appendix/Supporting documentation	44

Introduction

Background

This paper explains the Exposure Draft's cumulative 'lower of' requirement for measuring the risk mitigation adjustment (RMA) and highlights why it creates challenges in practice. Although the 'lower of' is intended to cap recognised RMA to the net repricing risk exposure modelled by benchmark derivatives, it introduces accounting-driven P&L effects that do not align with how repricing risk is managed or explained and created P&L that can only be explained by the cumulative lower of that is purely an accounting concept.

The worked examples illustrate how volatility can arise when the 'lower of' switches between benchmark and designated derivative cumulative amounts, changes sign. In particular, the interaction between the cumulative lower-of mechanism and required benchmark derivative adjustments following unexpected (derecognition) events can constrain or delay economically justified RMA releases and generate volatility unrelated to changes in repricing risk at the moment of the unexpected event and in the periods thereafter. Additionally, the cumulative lower of creates operational complexity.

Regulation

Applicable law and articles (accounting and/or regulatory)

The following paragraphs of IFRS 9 – Risk Mitigation Accounting (Exposure Draft) are particularly relevant:

- ED 7.4.6 However, unexpected changes in the financial instruments included in underlying portfolios might reduce the net repricing risk exposure to an amount below the risk mitigation objective specified at the beginning of the period. An entity shall adjust the benchmark derivatives to capture the effects of such unexpected changes.

- ED 7.4.7 The entity shall use reasonable and supportable information to adjust the benchmark derivatives to ensure that the exposure to repricing risk represented by the benchmark derivatives does not exceed the net repricing risk exposure in any repricing time band.

- ED 7.4.8 An entity shall recognise the risk mitigation adjustment in the statement of financial position, measured at the lower of the following (in absolute amounts):
 - (a) the cumulative gain or loss on the designated derivatives from the date the derivatives were designated; and
 - (b) the cumulative change in the fair value (present value) of the benchmark derivatives.

- ED BC93 The IASB proposes that an entity measure the risk mitigation adjustment in the statement of financial position at the lower of the cumulative fair value gains or losses of the designated and benchmark derivatives (also called the 'lower of' requirement; see paragraph 7.4.8 of the Exposure Draft). This requirement would ensure that any cumulative fair value gains or losses of the designated derivatives that exceed the cumulative changes in fair value of the benchmark derivatives (representing the net repricing risk exposure) are immediately recognised in profit or loss.

- ED BC94 This requirement is similar to the 'lower of' requirement for cash flow hedges in paragraph 6.5.11 of IFRS 9. The rationale for the latter requirement, as expressed in paragraphs BC6.371–BC6.374 of the Basis for Conclusions on IFRS 9, should also apply to risk mitigation accounting, even if the risk mitigation adjustment is recognised in the statement of financial position instead of other comprehensive income. Risk mitigation accounting and cash flow hedge accounting requirements both permit the designation of highly probable forecast transactions and existing financial assets and financial liabilities. The IASB also noted the similarities between the two approaches regarding recognition of gains and losses on underlying portfolios that do not yet exist and recognition of gains and losses arising when an entity has under-mitigated its repricing risk exposure.

- ED BC95 The IASB deliberated the advantages and disadvantages of adapting this requirement for risk mitigation accounting. The main advantage is that it would provide useful information about the dual purpose of repricing risk

management. By applying this requirement, an entity would report the effects of its risk management:

- (a) in the statement of financial position—by recognising the risk mitigation adjustment only to the extent to which it has successfully mitigated the repricing risk. This approach provides useful information about the entity's risk management efforts. The risk mitigation adjustment would in effect represent the future benefit to be recognised in profit or loss when the mitigated cash flows from, or fair value changes of, the underlying portfolios affect profit or loss.
- (b) in the statement of profit or loss—by immediately recognising the gains or losses not included in the risk mitigation adjustment in profit or loss. To the extent that the risk has been mitigated, the fair value changes are recognised in the same (future) period(s) as when the net interest income or economic value of underlying portfolios affect profit or loss. This approach faithfully represents the effects of risk mitigation accounting.

ED BC96 Another benefit of the requirement would be the provision of more direct information about the effectiveness of risk management activities. Risk mitigation accounting conveys information about how an entity's risk management actions will affect the timing and amount of its future cash flows and about the effectiveness of the entity's repricing risk management activities.

ED BC97 In the IASB's view, the main disadvantage of the requirement under cash flow hedge accounting does not arise in risk mitigation accounting. In cash flow hedge accounting, the requirement leads to asymmetrical recognition in the financial statements 'because the hedge ineffectiveness arising from the larger change in fair value on the hedged item compared to that on the hedging instrument would not be recognised' (see paragraph BC6.250(b) of the Basis for Conclusions on IFRS 9).

ED BC98 However, in risk mitigation accounting, the risk mitigation objective reflects the notional of the designated derivatives that an entity uses to manage its repricing risk. The risk mitigation objective in turn determines the notional of the benchmark derivatives, which model the net repricing risk exposure, meaning that there is little to no risk of a notional mismatch (excluding the effect of any risk mitigation adjustment excess). Any gains or losses arising from maturity mismatches, basis risk or other differences between the designated and benchmark derivatives that are not included in the risk mitigation adjustment are immediately recognised in profit or loss. Such gains or losses provide information about the designated derivatives, which are often selected for liquidity and other economic factors.

Proposed treatment

Absolute amounts and directionality cumulative lower of

In most cases Designated Derivatives (DD) have an opposite fair value move compared to the Benchmark Derivatives (BD), for example if DD have a positive fair value move, the BD will have a negative fair value move. RMA ED 7.4.8 mentions a lower of (in absolute amounts). A common interpretation of the wording 'in absolute amounts' is that this is because of the in most cases opposite sign of the fair value of the BD compared to the fair value of the DD and therefore it is the lower of de DD and BD in absolute terms. However, in cases where the cumulative fair value move of both the BD and DD moved in the same direction, both positive or negative, a common interpretation regarding the lower of is that the recognised RMA adjustments should not be recorded with an identical sign/move as the DD but is capped/floored at zero.

See below examples. In the first two, the BD and DD move in opposite direction and the absolute lower of results in a correct lower of in case in example 1, where the DD is the lower. However, when the DD and BD move in identical direction the absolute lower of in example 4, would result in a lower of adjustment of 1, where you would in fact postponed future P&L of 18, instead of 9 from the DD.

Example 1: BD and DD opposite sign				
	BD	DD	Lower of	Total
Balance	-10	9	1	0
P&L	10	-9	-1	0

Example 2: BD and DD identical sign and BD capped at zero				
	BD	DD	Lower of	Total
Balance	-10	-9	10	-9
P&L	10	9	-10	9

Example 3: BD and DD identical sign and ABS (lower of)				
	BD	DD	Lower of	Total
Balance	-10	-9	1	-18
P&L	10	9	-1	18

Cumulative lower of and P&L impact

The cumulative lower of concept is purely an accounting concept that does not exist in risk management and creates P&L accounting volatility that is difficult to explain from a risk management perspective. Most of the RMA positions are actual on balance positions and the lower of adjustment will result in a P&L that is not a faithful representation of risk management for the period. This can be the case when the lower off switches from BD to DD or flips sign. The lower of is especially a concern when a BD needs to be adjusted based on an unexpected (derecognition) event. In the next chapter we will elaborate on this with some examples.

Examples

Simple example

Simple example cumulative lower of and P&L

Period	Sign	BD	DD	Cum	Cum	Cum	lower	Cum	P&L	Cum	P&L	Cum P&L
	BD	move	move	BD	DD	Lower	of	BD incl		P&L	incl	incl Lower
	lower					of		lower			Lower	of
	of							of			of	
1	1	100	-90	100	-90	-10	-10	90	10	10	0	0
2	-1	-110	85	-10	-5	10	20	0	-25	-15	-5	-5
3	-1	-40	40	-50	35	15	5	-35	0	-15	5	0
4	1	1,000	-1,030	950	-995	0	-15	950	-30	-45	-45	-45

This example shows that part of the P&L volatility in period 2 – 4 can only be explained by the lower of and not by the moves of the BD and or DD. The lower of will be added as a driver of the result, that does not exist in risk management. This is contradicting to what is stated in BC 96 as the lower off does only result in a RMA result that cannot be explained by the actual risk management activities and therefore do not provide more direct information about the effectiveness of risk management activities.

Simple example cumulative lower of and derecognition events

Assume NRRE is made up of 100 asset and 50 liabilities in only 1 time bucket. BD move is therefore 50% of asset NRRE (100 asset -/- 50 liability).

In period4: sale of 30% of asset = unexpected event => adjust BD 100% NRRE = 950 * 2 = 1900 and 30% asset NRRE = 633.3 and the BD needs to be adjusted accordingly.

In period 5 DD derivatives PV01 reduced accordingly to BD with at market derivatives and normal interest move in period 5.

Period	Sign	BD	DD	Cum	Cum	Cum	lower	Cum	P&L	Cum	P&L	Cum P&L
	BD	move	move	BD	DD	Lower	of	BD incl		P&L	incl	incl Lower
	lower					of		lower			Lower	of
	of							of			of	
1	1	100	-90	100	-90	-10	-10	90	10	10	0	0
2	-1	-110	85	-10	-5	10	20	0	-25	-15	-5	-5
3	-1	-40	40	-50	35	15	5	-35	0	-15	5	0
4	1	1,000	-1,030	950	-995	0	-15	950	-30	-45	-45	-45
Unexpected event 4	-1	-633	0	317	-995	0	0	317	-633	-678	-633	-678
5	1	100	-100	417	-1,095	0	0	417	0	-678	0	-678

In this example the release in period 4 based on the adjusted Benchmark Derivative and interest move in period 5 are in line with risk management.

Let's consider the same example, but now a sale of 60% of the assets. 60% = 1266.6 release.

Period	Sign BD lower of	BD move	DD move	Cum BD	Cum DD	Cum Lower of	lower of	Cum BD incl lower of	P&L	Cum P&L	P&L incl Lower of	Cum P&L incl Lower of
1	1	100	-90	100	-90	-10	-10	90	10	10	0	0
2	-1	-110	85	-10	-5	10	20	0	-25	-15	-5	-5
3	-1	-40	40	-50	35	15	5	-35	0	-15	5	0
4	1	1,000	-1,030	950	-995	0	-15	950	-30	-45	-45	-45
Unexpected event 4	-1	-1,267	0	-317	-995	317	317	0	-1,267	-1,312	-950	-995
5	1	100	-100	-217	-1,095	217	-100	0	0	-1,312	-100	-1,095

In this example, the adjustment of the BD (fair value) is larger than the RMA adjustment of the net position. In this case the release is restricted to cumulative BD of 950 as you cannot release more than the cumulative RMA adjustment (=BD). The next period (5) the lower of including the adjusted BD results in -100 P&L impact due to the lower of, of -100. Also, there will be a disturbing P&L from a difference in (amortisation) in P&L due to the difference is fair value of the BD vs the DD as the BD is adjusted with the derecognition fair value amount (off market derivatives), while the (PV01) of the DD is adjusted with at market derivatives.

Let's consider the same example, but now 30% of the liability is bought back. 100% Liability = -/- BD = -950 and 30% = -316.7

Period	Sign BD lower of	BD move	DD move	Cum BD	Cum DD	Cum Lower of	lower of	Cum BD incl lower of	P&L	Cum P&L	P&L incl Lower of	Cum P&L incl Lower of
1	1	100	-90	100	-90	-10	-10	90	10	10	0	0
2	-1	-110	85	-10	-5	10	20	0	-25	-15	-5	-5
3	-1	-40	40	-50	35	15	5	-35	0	-15	5	0
4	1	1,000	-1,030	950	-995	0	-15	950	-30	-45	-45	-45
Unexpected event 4	1	317	0	1,267	-995	-272	-272	995	317	272	45	0
5	1	100	-100	1,367	-1,095	-272	0	1,095	0	272	0	0

In this case, one cannot release anything as the release would increase the RMA adjustment, however there is cum pull to par adjustment of 45.

An alternative method could be to adjust the BD only with the max amount of the release, 950 in the example above. However, the RMA requirements prescribe that the BD need to be adjusted in full to represent the unexpected event (7.4.6). We refer to the WG 10 unexpected events paper. Additionally, the RMA excess test might require releasing part of the RMA adjustment if the BD is or cannot be adjusted.

From the examples it is clear that the cumulative lower of will result in P&L volatility in the periods after the unexpected event, for the amount of fair value that could not be released at the time of the unexpected event even when the interest rate risk (PV01) is fully hedged.

Scaled example

N/A

Operability concerns

Cumulative lower of a pure accounting concept that does not exist in risk management and 'pollutes' the RMA results. The P&L impact is difficult to explain in the RMA result other than cumulative lower of impact. The lower off might be especially of a concern when there is an unexpected (derecognition) event, and the BD needs to be adjusted in full to represent the unexpected event.

Conclusion

Based on the analysis and examples, we conclude that the cumulative lower-of does not function as intended when benchmark derivatives must be adjusted for unexpected events. In such cases, the cumulative lower of can generate accounting-driven P&L volatility, restrict RMA releases, or delay recognition of risk mitigation effects in ways that are not aligned with the economics of repricing risk management. In conclusion, the cumulative 'lower of' may undermine understandability of RMA results and increase operational burden. RMA without a cumulative lower of results in a more faithful representation of risk management especially in case of benchmark derivative that needs to be adjusted due to an unexpected event.

Accordingly, we recommend that the cumulative lower of requirements be removed in their entirety from the Exposure Draft and reconsidered only after comprehensive real-world field testing has demonstrated both a clear need and the feasibility of a demonstrably workable alternative. Based on current analysis, no such replacement mechanism has yet been identified that would avoid the same fundamental conceptual and operational flaws.

Appendix/Supporting documentation

N/A

WG3 I TRANSITION FROM IAS39/IFRS9: BENCHMARK DERIVATIVES WITH INITIAL FAIR VALUE OF ZERO

Information sheet

<i>Title</i>	WG3 I TRANSITION FROM IAS39/IFRS9: BENCHMARK DERIVATIVES WITH INITIAL FAIR VALUE OF ZERO
<i>Paper writer</i>	EBF Hedge Accounting Workgroup
<i>Type of paper</i>	Fatal flaw: request/demand for change (7) Interpretation/clarification (8) Fatal flaw: request/demand for change
<i>Adjustment required for RMA?</i>	Yes
<i>Conceptual issue?</i>	Yes
<i>RAG⁴</i>	

⁴ Please refer to the latest version of the document "Definition of Traffic Light Colouring/System" for the corresponding definition of the traffic light system applied

Contents

Introduction	48
Background	48
Regulation.....	49
Applicable law and articles (accounting and/or regulatory).....	49
Paragraphs requiring an initial fair value of zero	49
IFRS 9 paragraphs on hypothetical derivatives as referred to in ED RMA.....	49
Transition requirements.....	50
Proposed treatment.....	52
PV01 profile derivatives with zero fair value vs off market derivatives	52
Transition from IAS39 and or IFRS 9 hedge accounting to RMA	53
Constructing BD and off market derivatives other than at transition	55
Acquisitions and discontinuation of RMA	55
Newly traded off market designated derivatives.....	55
Amortisation and tracking IAS39/IFRS9 balances.....	55
Pull to par adjustment and cumulative lower of	56
Examples RMA at market vs off market benchmark derivatives	57
Simple example	57
Scaled example.....	57
Operability concerns	58
Conclusion.....	59
Appendix/Supporting documentation	60
PV01 profiles at market BD	60
PV01 profile off market BD	61
Accounting entries at market BD per RMA	62
Accounting entries off market BD per proposal	62

Introduction

Background

The IASB published the Exposure Draft on Risk Mitigation Accounting on 3 December 2025 and invited stakeholders to provide feedback on the proposed requirements. To support the development of a robust, evidence-based comment letter, the banking industry decided to perform a field test of the RMA requirements. The deadline for submitting the comment letter is aligned with the IASB's fieldwork submission deadline, with both submissions due by 30 November 2026.

The banking industry sees some major challenges/issues regarding the construction of the Benchmark Derivatives. One of the concerns is the requirement to construct BD with an initial fair value of zero. At transition date from IAS 39/IFSS 9 to RMA all the existing hedging derivatives do not have a value of zero. This is also the case when RMA needs to be applied to a new acquisition, when the acquisition comes with off market hedging derivatives, or a compulsory RMA discontinuation with restart. Sometimes off market derivatives are executed to hedge repricing risk as well, like hedging issued bonds with a nonzero derivative and a one-off payment for non-zero fair value. This paper addresses the concerns and operation challenges regarding the requirement to construct zero fair value Benchmark Derivatives and introduces a potential alternative.

Regulation

Applicable law and articles (accounting and/or regulatory)

In the exposure draft (ED) on Risk Mitigation Accounting (RMA), there are several paragraphs referring to the requirement to construct Benchmark Derivatives (BD) with an initial fair value of zero. In these RMA paragraphs, there is also a reference to IFR9 hypothetical derivative. The text of the relevant paragraphs is presented below.

Paragraphs requiring an initial fair value of zero

- ED 7.4.5 An entity shall replicate the timing and amount of repricing risk as specified in the risk mitigation objective through benchmark derivatives. An entity shall construct new benchmark derivatives to have an initial fair value of zero based on the mitigated rate.

- ED 7.4.9 Benchmark derivatives are an important element of risk mitigation accounting, not only as a representation of risk mitigation objectives over time, but also for the purposes of measuring the risk mitigation adjustment.

Therefore, benchmark derivatives are constructed based on the mitigated rate and calibrated to have an initial fair value of zero at the date they are constructed.

- ED BC84 The IASB therefore proposes that an entity constructs theoretical derivatives to represent the timing and amount of the repricing risk specified in the risk mitigation objective. In the IASB's view, basing benchmark derivatives on the timing and amount of the repricing risk represented by the risk mitigation objective, rather than simply mirroring the designated derivatives, will ensure that the value changes of the benchmark derivatives are measured independently from the value changes of the designated derivatives. The benchmark derivatives are therefore similar to the hypothetical derivative used in cash flow hedging (see paragraphs B6.5.5–B6.5.6 of IFRS 9).

IFRS 9 paragraphs on hypothetical derivatives as referred to in ED RMA

- IFRS9 B6.5.5 To calculate the change in the value of the hedged item for the purpose of measuring hedge ineffectiveness, an entity may use a derivative that would have terms that match the critical terms of the hedged item (this is commonly referred to as a 'hypothetical derivative'), and, for example for a hedge of a forecast transaction, would be at the money at the time of designation of the hedging relationship. This is one possible way of calculating the change in the value of the hedged item. The hypothetical derivative replicates the hedged item and hence results in the same outcome as if that change in value was determined by a different approach. Hence, using a 'hypothetical derivative' is not a method in its own right but a mathematical expedient that can only be used to calculate the value of the hedged item. Consequently, a 'hypothetical derivative' cannot be used to include features in the value of the hedged item that

only exist in the hedging instrument (but not in the hedged item). An example is debt denominated in a foreign currency (irrespective of whether it is fixed rate or variable rate debt). When using a hypothetical derivative to calculate the change in the value of such debt or the present value of the cumulative change in its cash flows, the hypothetical derivative cannot simply impute a charge for exchanging different currencies even though actual derivatives under which different currencies are exchanged might include such a charge (e.g. cross-currency interest rate swaps).

IFRS9 B6.5.6 The change in the value of the hedged item determined using a hypothetical derivative may also be used for the purpose of assessing whether a hedging relationship meets the hedge effectiveness requirements.

Transition requirements

Entities that previously applied the hedge accounting requirements in IAS 39

ED BC136 One important consideration is the treatment of amounts recognised in the statement of financial position that relate to hedging relationships discontinued for the purpose of applying risk mitigation accounting. In the IASB's view, the most appropriate way to treat these amounts would be to require an entity to apply the discontinuation requirements in IAS 39. However, because IFRS 9 has substantially the same requirements as IAS 39, the IASB proposes that an entity apply the requirements in paragraphs 6.5.10 and 6.5.12 of IFRS 9 to such discontinued hedging relationships.

Entities that previously applied the hedge accounting requirements in IFRS 9

ED BC137 Entities that previously applied the hedge accounting requirements in IFRS 9 would still be able to apply those requirements. However, if an entity decides to apply risk mitigation accounting, it might need to discontinue some hedging relationships in favour of applying risk mitigation accounting.

ED BC139 Without specific transition requirements, most entities would not be able to apply risk mitigation accounting until the IFRS 9 hedging relationships had expired. In the IASB's view, to achieve the objective of risk mitigation accounting, it is necessary to permit entities to discontinue some of their IFRS 9 hedging relationships to enable them to include some or all of the previously designated hedged items in the underlying portfolios.

IFRS9 6.5.8 As long as a fair value hedge meets the qualifying criteria in paragraph 6.4.1, the hedging relationship shall be accounted for as follows:

- (a) the gain or loss on the hedging instrument shall be recognised in profit or loss (or other comprehensive income, if the hedging instrument hedges an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5).
- (b) the hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item (if applicable) and be recognised in profit or loss. If the hedged item is a financial asset (or a component thereof) that is measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A, the hedging gain or loss on the hedged item shall be recognised in profit or loss. However, if

the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5, those amounts shall remain in other comprehensive income. When a hedged item is an unrecognised firm commitment (or a component thereof), the cumulative change in the fair value of the hedged item subsequent to its designation is recognised as an asset or a liability with a corresponding gain or loss recognised in profit or loss.

IFRS9 6.5.10 Any adjustment arising from paragraph 6.5.8(b) shall be amortised to profit or loss if the hedged item is a financial instrument (or a component thereof) measured at amortised cost. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for hedging gains and losses. The amortisation is based on a recalculated effective interest rate at the date amortisation begins.

IFRS9 6.5.12 When an entity discontinues hedge accounting for a cash flow hedge (see paragraphs 6.5.6 and 6.5.7(b)) it shall account for the amount that has been accumulated in the cash flow hedge reserve in accordance with paragraph 6.5.11(a) as follows:

- (a) If the hedged future cash flows are still expected to occur, that amount shall remain in the cash flow hedge reserve until the future cash flows occur or paragraph 6.5.11(d)(iii) applies. When the future cash flows occur, paragraph 6.5.11(d) applies.
- (b) If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment (see IAS 1). A hedged future cash flow that is no longer highly probable to occur may still be expected to occur.

Proposed treatment

The paragraphs in the ED RMA, including the reference to IFRS 9 paragraphs regarding hypothetical derivatives used in cash flow hedge accounting clearly state that benchmark derivatives are constructed based on the mitigated rate and calibrated to have an initial fair value of zero at the date they are constructed. At the designation date and upon initial application of RMA, the net exposure already existed in the past, similar to the hedging derivatives. These derivatives were previously designated under micro or macro hedge relationships in accordance with IAS 39 or IFRS 9. Allowing an initial designation with historical rates should be permitted for onboarding late hedges at the transition to RMA. The key aspect of this approach is that the hedged item/NRRE (the benchmark derivative) is not constructed using the market rate at the designation date; rather, it is assigned a rate from a historical point in time, specifically the original start date of the past designation.

By calibrating the benchmark derivative using this historical rate, the following effects are achieved at the designation date:

- Both the NRRE (Benchmark Derivative) and the Designated Derivative (hedging instrument) have non-zero present values (PVs).
- These PVs are generally equal in magnitude and opposite in sign, so the relationship begins in a naturally offsetting position, with similar offsetting sensitivities.

The initial fair value of the Benchmark Derivatives at time T_0 , which largely equals the Designated Derivatives PV at T_0 , is amortized over the remaining life of the designation as the RMA adjustment starts at a nil value. This offsetting amortization of the initial fair value (FV) take-on, which will equal the pull-to-par amount of the Benchmark Derivative, ensures that adjustments to the benchmark derivative (NRRE) over the hedged period will not result in an overhang at the end of the hedge equivalent to the initial take-on.

This requirement for constructing zero fair value (at market) benchmark derivatives is not aligned with risk management and increases operational complexity of the RMA model. Instead, we will request/demand to allow constructing a (off market) benchmark derivative with an initial fair value that is not zero in combination with a pull to par adjustment. We request the same for the below situation where similar issues occur.

- An acquisition of a portfolio, when the acquisition comes with off market hedging derivatives.
- A compulsory RMA model discontinuation with restart.
- Business as usual, like newly traded off market designated derivatives.

In this chapter we will elaborate on the reasons for this request. In chapter 4 and 7 we will prove that creating off market derivatives in combination with a pull to par adjustment is aligned with risk management (actual hedging derivatives), reduces the operational burden and has an (almost) identical RMA balance and P&L.

PV01 profile derivatives with zero fair value vs off market derivatives

A derivative with a fair value of zero has a different PV01 risk profile per time bucket compared to an off-market derivative (that was initially at-market). In a simplified example using a flat curve and using the same curve for discounting and forecasting:

■ *At market fixed floating derivatives:*

The interest cashflows per time bucket are approximately zero, this is because the fixed and floating rates are aligned when pricing the swap to par.

■ *Off market fixed floating derivatives:*

If interest rate moves, the cash flows the time buckets before the final one are not zero anymore.

The differences in cashflows between an at and off market derivative result in a different PV01 profile. This different PV01 profile of an at market derivatives compared to an off-market derivative (with an identical notional) creates several (operational) issues in the RMA model.

Transition from IAS39 and or IFRS 9 hedge accounting to RMA

Upon transition from IAS39 and or IFRS9 hedge accounting all the existing hedging derivatives (in hedge accounting relationships) have a fair value and are off market swaps.

Let's consider a (simplified/fictive) example where an entity is 100% hedged from the start in only the 10-year bucket with 1 derivative (initial fair value of zero) and performed hedge accounting under IAS 39. In this simplified case the Net Repricing Risk Exposure (NRRE) and the Designated derivatives DD are 100% offsetting per time bucket. For this simplified example zero PV01 is assumed in the buckets 1 – 9 years.

PV01 T=0

	1	2	3	4	5	6	7	8	9	10
NRRE										100
DD										(100)

When the curve moves during the period, the PV01 at T=1 looks as below:

PV01 T=1

	1	2	3	4	5	6	7	8	9	10
NRRE	1	2	3	4	5	6	7	8	9	110
DD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(110)

Upon transition (T=1) the NRRE PV01 is identical to the PV01 of the DD; still consisting of 1 exposure in the 10 year and 1 derivative in the 10-year bucket. However, both the NRRE and the Designated Derivative (DD) do have a PV01 in all the buckets up to the 10-year bucket.

The RMO is evidenced by the PV01 risk profile of the DD. The requirement to construct at market (zero PV) BDs requires constructing additional BD to match the PV01 profile of the DD (=RMO) and NRRE in each time bucket. There are no DD traded in the 1 – 9-year time buckets. In the simplified example, there is only a NRRE (notional) in the 10-year time bucket, hedged with a 10-year fixed floating derivative (and hedge accounted for under IAS39), from the start date. Upon transition, one needs to create a BD in every time bucket

up to 10 years to match the NRRE and DD PV01 profile (without having externally traded derivatives in these time buckets):

PV01 T=1 (simplified flat curve)

	1	2	3	4	5	6	7	8	9	10
<i>NRRE</i>	1	2	3	4	5	6	7	8	9	110
<i>DD</i>	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(110)
<i>BD1</i>										(110)
<i>BD2</i>									(9)	
<i>BD3</i>								(8)		
...							...			
<i>BD10</i>	(1)									

All the BD with an initial fair value of zero that have to be constructed upon transition to match the PV01 profile of the off-market DD in bucket 1 - 9, are not evidenced by (B7.4.3), externally traded derivatives in these buckets. The PV01 delta of the DD is/needs to be the evidence for constructing the BD in these (1-9 year) time buckets. These additional benchmark derivatives have to be constructed, recorded and valued at the start of the transition/period. If in this example the PV01 profile increased and not constructing the additional BD, results in an under hedge and RMA volatility that is not in line with the perfect economic hedge. If the interest rates would have moved in opposite direction, the PV01 profile (of the NRRE and DD) would have been lower and without creating these additional BD, there would be an over-hedge in all buckets and the BD has to be adjusted according to the existing RMA requirement (7.4.1), while in the DD is perfectly hedging the NRRE in all time buckets.

Going forward you would constantly need to re-adjust and create new, adjusting BDs to match the PV01 of the at market BD with the PV01 of the off-market DD (and NRRE). This, because the PV01 profile of an at market and off market swap change differently per time bucket due to a convexity impact, which will create a higher (over-hedge) or lower PV01 profile of the BD compared to the DD (and NRRE) per time bucket without any (unexpected) changes to the DD, BD or NRRE.

In chapter 7, the above example is worked out with actual valuations and calculations, however still simplified with one NRRE, DD and BD in the time buckets (and 3-month forecasting and discounting). In practice there are many underlying positions (NRRE, DD) with many different actual maturity dates per time bucket. For example, if an entity defined a 10 year time bucket to which underlying NRRE and derivatives with a maturity of 7.5 - 12.5 year maturity are assigned the PV01 of the NRRE/DD in the 10 year bucket cannot be represented/corrected by just one BD, creating even more operational challenges and resulting in an unworkable situation. We refer to paper WG9 over hedge under hedge.

For some currencies, like Euro, the forecasting and discounting curve of derivatives are often not identical, creating additional issues and operational complexity. A different

discounting (OIS) and forecasting curve (3M or 6M) for Euro creates an additional difference as the at-market derivative has zero PV01 for the (OIS) discounting curve while an off-market swap has PV01 on the discounting curve too. This means that additional single currency basis benchmark derivatives need to be constructed to match the PV01 profile per curve of the off-market designated derivatives.

We propose/request that upon transition the existing BD can be constructed off market with an additional periodic recording of a pull to par adjustment for the initial fair value, which is aligned with risk management and reduces operational complexity to give the desired accounting outcome.

Constructing BD and off market derivatives other than at transition

Acquisitions and discontinuation of RMA

Besides existing off market derivatives at transition date, a similar issue can occur at an acquisition of a portfolio, when the acquisition comes with off market hedging derivatives, for which RMA will be applied upon acquisition or for a compulsory RMA model discontinuation with restart. The same applies to when the RMA model needs to be discontinued an off-market derivatives continue to exist.

We propose/request that upon transition the existing BD can be constructed off market with an additional periodic recording of a pull to par adjustment for the initial fair value.

Newly traded off market designated derivatives

Although (most) of the hedging / DD derivatives are traded at market, there are instances that off market derivatives are traded, for example in bond issuances, restructuring existing hedges and swaptions. The requirement to construct an at market BD results in identical issues as on transition date and requires construction of additional, non-existing benchmark derivatives not aligned with actual risk management. This, to match the PV01 profile of the off-market DD.

We propose/request that upon transition the existing BD can be constructed off market with an additional periodic recording of a pull to par adjustment for the initial fair value.

In practice, the executed hedging derivatives would be the driver for constructing BD. If the hedging derivatives are executed at market during the day, the BD is a copy (* -1) of the executed hedging derivative, assuming no warehousing of risk. When a derivative is executed off market an alternative approach would be to construct the BD at the end of the day and record a pull-to-par adjustment for all the trades executed during the day.

We propose/request to be able to construct and off-market BD in combination with a periodic pull-to-par adjustment, which is aligned with risk management, reduces operational complexity, and provides a correct and complete result.

Amortisation and tracking IAS39/IFRS9 balances

The cumulative hedge accounting adjustments of the de-designated relationships under IAS39 / IFRS9 need to be amortised over their remaining maturity or earlier derecognition,

according to transition requirements in 2.1.3. This requires tracking of the underlying hedged items of IAS39/IFRS9 discontinued relationships.

Pull to par adjustment and cumulative lower of

The proposed pull to par adjustment should not be included in the cumulative lower of adjustment as the BD and DD both have the same amortisation of the initial fair value at the moment of transition. The pull to par adjustment is a correction in the P&L and the RMA adjustment. Assuming a perfect hedge accounting under IAS39/IFRS9 at the moment of transition, the amortisation of the IAS39/IFRS9 hedge accounting balance of discontinued relationships is equal opposite of the pull to par adjustment of the RMA benchmark derivatives. Additionally, if a pull to par adjustment will be introduced to RMA as proposed, the RMA adjustment on the balance includes a pull to par adjustment that impacts the RMA excess release. The impact needs to be included in the evaluation of the excess release assessment.

Examples RMA at market vs off market benchmark derivatives

Simple example

In chapter 7: appendix, an example is worked out in which a comparison is presented between constructing at market (zero PV) and off market benchmark derivatives and a pull to par adjustment. The example shows that constructing at market BD, while the actual hedging derivatives are off market, requires constructing additional BD in all the time buckets to match the PV01 profile of the off market external hedging derivatives. The only difference in RMA journals between constructing at market and off market BD is the recording of a pull to par adjustment to 'amortize' the initial fair value of the BD over time. Details of the RMA journals are in chapter 7. When applying pull-to-par adjustments, there is a minimal impact on RMA balance and P&L. The total (dirty) PV move in the example is € 275 mio, with a difference in P&L of only € 232k:

Moves	Total off market	Total At market	Difference
NRRE balance	4,877,822	4,877,822	0
Derivative balance	274,892,887	274,892,887	0
RMA balance	-281,072,923	-281,305,189	232,265
P&L trading	0	-320,689	320,689
NII	1,302,214	1,855,169	-552,955

We note that when swaption (or option) based benchmark derivatives are constructed, these may start with a premium and require an amortisation mechanism. We refer to WG 8 paper non-linear risk RMA.

Scaled example

N/A

Operability concerns

Requiring constructing zero fair value derivatives introduces a huge operational burden to construct additional 'artificial' benchmark derivatives at $t=0$, which are not necessarily evidenced by DD in the shorter time buckets in order to match the PV01 profile of the off market designated derivatives. This because the PV01 profile of an at market and off market derivative are different per time bucket. After $t=0$ further ongoing adjustments to the benchmark derivatives need to be made, to adjust for the difference in behaviour in PV01 of at and off market derivatives. Additionally, the fair value of these 'artificial' benchmark needs to be calculated, instead of using the fair value of the DD $\times -1$. While an off-market derivatives is in (most cases) a copy ($\times -1$) of the existing designated derivatives and pull to par adjustments, which banks are already used to in current hedge accounting practices.

Conclusion

A minor change in wording is required to rectify the currently unworkable approach. According to ED RMA BC84, basing benchmark derivatives on the timing and amount of the repricing risk represented by the risk mitigation objective, rather than simply mirroring the designated derivatives, will ensure that the value changes of the benchmark derivatives are measured independently from the value changes of the designated derivatives.

We are of the opinion that constructing off market BD that are a mirror of the DD, under the condition that the mitigated risk of the DD (like 3M Euribor) is identical to the benchmark rate of the NRRE (like 3M Euribor) meets this requirement, as the RMO is evidenced by executed off market derivatives. When the DD derivative is for example 6M Euribor and the benchmark rate of the NRRE is for example 3M Euribor, the BD needs to be constructed with a 3M instead of a 6M Euribor benchmark rate with an identical fair value to the DD.

In this paper we showed that the requirement to construct at market BD only is not aligned with actual risk management and results in additional/unnecessary operational complexity. Allowing construction off market benchmark derivatives reduces operational complexity and is aligned with risk management, while RMA journals are (almost) identical.

Constructing off market benchmark derivatives not only fulfils regulatory requirements, i.e. delivers the desired outcome, only records the fair value moves from the start of designation, but also streamlines operational processes. This approach supports genuine risk management practices and maintains the integrity of RMA journal entries.

Overall, allowing the construction of off market benchmark derivatives offers clear operational and risk management benefits, reducing unnecessary complexity while remaining compliant with regulatory frameworks. We request/recommend adopting this approach to better align with actual risk mitigation strategies and simplify related workflows. The construction of off market Benchmark Derivatives should be allowed:

- At transition.
- When an acquisition comes with off market hedging derivatives.
- In case of a compulsory RMA model discontinuation with restart.
- For business as usual, like newly traded off market designated derivatives.

Appendix/Supporting documentation

In this appendix an example is worked out. In this example the measurement used for risk management is PV01 (per time bucket). A Euro 3M NRRE in the 10-year bucket (only) is perfectly (100%) hedged with off-market derivatives (3M forecasting and 3M discounting). The 'off marketness' at $t=0$ is set at 100bp in all buckets based on the 30-06-25 curve. For $t=1$, the curve is shocked with 200bp. A comparison between constructing at market (zero PV) and off market benchmark derivatives and a pull to par adjustment is presented.

PV01 profiles at market BD

PV01 $t=0$

Key Description	1y	2y	3y	4y	5y	6y	7y	8y	9y	10y
NRRE Delta	-410	-2,528	-4,219	-5,416	-7,049	-8,589	-10,315	-11,732	-13,121	-1,500,000
NRRE Tradetype for solving	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0
NRRE Notional	0	0	0	0	0	0	0	0	0	1,707,267,870
RMO Delta	410	2,528	4,219	5,416	7,049	8,589	10,315	11,732	13,121	1,500,000
RMO Notional	2,123,920	920,757	-561,967	356,242	-199,146	-203,736	-501,265	-364,694	-89,229	-1,699,614,861
RMO Absolute Add on	0	0	0	0	0	0	0	0	0	0
RMO Percentage Add on	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
RMO Tradetype for solving	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0
BenchMark Delta	-410	-2,528	-4,219	-5,416	-7,049	-8,589	-10,315	-11,732	-13,121	-1,500,000
BenchMark Notional	10,193,634	13,062,222	14,903,570	14,223,793	15,127,002	15,481,843	16,135,706	16,399,837	16,414,772	1,711,960,661
BenchMark Absolute Add on	0	0	0	0	0	0	0	0	0	0
BenchMark Percentage Add on	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
BenchMark Tradetype for solving	ParSwapT=0	ParSwapT=0	ParSwapT=0	ParSwapT=0	ParSwapT=0	ParSwapT=0	ParSwapT=0	ParSwapT=0	ParSwapT=0	ParSwapT=0
External Delta	410	2,528	4,219	5,416	7,049	8,589	10,315	11,732	13,121	1,500,000
External Notional	2,123,920	920,757	-561,967	356,242	-199,146	-203,736	-501,265	-364,694	-89,229	-1,699,614,861
External Absolute Add on	0	0	0	0	0	0	0	0	0	0
External Percentage Add on	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
External Tradetype for solving	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0

PV01 t=1

Key Description	1y	2y	3y	4y	5y	6y	7y	8y	9y	10y
NRRE Delta T=1 Incl Addon	2,339	2,182	2,811	4,778	5,729	7,113	8,366	9,121	-114,326	-1,194,270
NRRE Delta T=1 ex Addon	2,339	2,182	2,811	4,778	5,729	7,113	8,366	9,121	-114,326	-1,194,270
NRRE Notional T=1 Incl Addon	0	0	0	0	0	0	0	0	0	1,707,267,876
Notional Add On	0	0	0	0	0	0	0	0	0	0
Tradetype Add on	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0
RMO Delta T=1 Incl Addon	-2,730	-1,722	-3,668	-4,319	-5,749	-7,103	-7,408	-9,980	112,552	1,195,901
RMO Delta T=1 ex Addon	-2,730	-1,722	-3,668	-4,319	-5,749	-7,103	-7,408	-9,980	112,552	1,195,901
RMO Notional T=1 Incl Addon	2,123,920	920,757	-561,967	356,242	-199,146	-203,736	-501,265	-364,694	-89,229	-1,699,614,881
Notional Add On	0	0	0	0	0	0	0	0	0	0
Tradetype Add on	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0
Benchmark Delta T=1 Incl Addon	2,881	1,695	3,708	4,290	5,754	7,101	7,400	9,979	-112,257	-1,196,149
Benchmark Delta T=1 ex Addon	2,881	1,695	3,708	4,290	5,754	7,101	7,400	9,979	-112,257	-1,196,149
Benchmark Notional T=1 Incl Addon	10,193,634	13,062,222	14,903,576	14,223,783	15,127,802	15,481,843	16,135,706	16,399,637	16,414,772	1,711,980,661
Notional Add On	0	0	0	0	0	0	0	0	0	0
Tradetype Add on	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0
External Delta T=1 Incl Addon	-2,730	-1,722	-3,668	-4,319	-5,749	-7,103	-7,408	-9,980	112,552	1,195,901
External Delta T=1 ex Addon	-2,730	-1,722	-3,668	-4,319	-5,749	-7,103	-7,408	-9,980	112,552	1,195,901
External Notional T=1 Incl Addon	2,123,920	920,757	-561,967	356,242	-199,146	-203,736	-501,265	-364,694	-89,229	-1,699,614,881
Notional Add On	0	0	0	0	0	0	0	0	0	0
Tradetype Add on	FixedlegParSwapRateT=0	FixedlegParSwapRateT=0	FixedlegParSwapRateT=0	FixedlegParSwapRateT=0	FixedlegParSwapRateT=0	FixedlegParSwapRateT=0	FixedlegParSwapRateT=0	FixedlegParSwapRateT=0	FixedlegParSwapRateT=0	FixedlegParSwapRateT=0

Although there is only a NRRE notional in the 10-year bucket, there is a (small) NRRE PV01 in all the shorter buckets. The Risk Mitigation Objective (RMO) is to hedge 100% of the PV01 in all the time buckets. The external derivatives also hedge 100% of the PV01 in all time buckets. There is a small notional (<1.5 mio total) for the off market RMO and external derivatives in the 1–9-year time buckets to hedge the PV01 of the NRRE (even if there is no notional exposure in these buckets).

To construct at market (zero PV) benchmark derivatives at t=0 to match the RMO of the off-market hedging derivatives, there is a significant amount of BD (notional) to be constructed in all the time buckets (132 mio notional in the 1-9-year time buckets).

If we look at the PV01 profiles 1 month further (shock of 200bp applied), we see that the PV01 profiles of the NRRE, BD and external derivatives changed significantly, without any changes to the notional. In practice these small differences between NRRE and the (external) hedging derivatives are within the limits (per time bucket) and do not necessarily result in additional hedging derivatives. If additional derivatives will be executed to hedge the GAP between NRRE and hedging derivatives caused by convexity impact, these can/will be the basis for constructing the BD.

However, the PV01 profile of the at market BD (at t=0) does not change in the same order (due to different convexity) as the change in PV01 of the off market external derivatives and creates small under and over hedges per time bucket. This again creates the need to construct additional BD to match the changes in PV01 of the external derivatives, when material.

PV01 profile off market BD

PV01 t=0

Key Description	1y	2y	3y	4y	5y	6y	7y	8y	9y	10y
NRRE Delta	-410	-2,528	-4,219	-5,416	-7,049	-8,589	-10,315	-11,732	-13,121	-1,500,000
NRRE Tradetype for solving	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0	FixedlegNonParSwapRateT=0
NRRE Notional	0	0	0	0	0	0	0	0	0	1,707,267,876
RMO Delta	410	2,528	4,219	5,416	7,049	8,589	10,315	11,732	13,121	1,500,000
RMO Notional	2,123,920	920,757	-561,967	356,242	-199,146	-203,736	-501,265	-364,694	-89,229	-1,699,614,881
RMO Absolute Add on	0	0	0	0	0	0	0	0	0	0
RMO Percentage Add on	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
RMO Tradetype for solving	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0
Benchmark Delta	-410	-2,528	-4,219	-5,416	-7,049	-8,589	-10,315	-11,732	-13,121	-1,500,000
Benchmark Absolute Add on	0	0	0	0	0	0	0	0	0	0
Benchmark Percentage Add on	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Benchmark Tradetype for solving	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0
External Delta	410	2,528	4,219	5,416	7,049	8,589	10,315	11,732	13,121	1,500,000
External Notional	2,123,920	920,757	-561,967	356,242	-199,146	-203,736	-501,265	-364,694	-89,229	-1,699,614,881
External Absolute Add on	0	0	0	0	0	0	0	0	0	0
External Percentage Add on	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
External Tradetype for solving	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0

PV01 t=1

Key Description	1y	2y	3y	4y	5y	6y	7y	8y	9y	10y
NRRE Delta T=1 Incl Addon	2,339	2,182	2,811	4,778	5,729	7,113	8,366	9,121	-114,326	-1,194,270
NRRE Delta T=1 ex Addon	2,339	2,182	2,811	4,778	5,729	7,113	8,366	9,121	-114,326	-1,194,270
NRRE Notional T=1 Incl Addon	0	0	0	0	0	0	0	0	0	1,767,267,876
Notional Add On	0	0	0	0	0	0	0	0	0	0
TradeType Add on	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0
RMO Delta T=1 Incl Addon	-2,730	-1,722	-3,668	-4,319	-5,749	-7,183	-7,408	-9,980	112,562	1,195,901
RMO Delta T=1 ex Addon	-2,730	-1,722	-3,668	-4,319	-5,749	-7,183	-7,408	-9,980	112,562	1,195,901
RMO Notional T=1 Incl Addon	2,123,920	920,767	-561,967	356,242	-199,146	-203,736	-501,265	-364,694	-89,229	-1,699,614,881
Notional Add On	0	0	0	0	0	0	0	0	0	0
TradeType Add on	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0	OffmarketSwapT=0
Benchmark Delta T=1 Incl Addon	2,730	1,722	3,668	4,319	5,749	7,183	7,408	9,980	-112,562	-1,195,901
Benchmark Delta T=1 ex Addon	2,730	1,722	3,668	4,319	5,749	7,183	7,408	9,980	-112,562	-1,195,901
Benchmark Notional T=1 Incl Addon	-2,123,920	-920,767	561,967	-356,242	199,146	203,736	501,265	364,694	89,229	1,699,614,881
Notional Add On	0	0	0	0	0	0	0	0	0	0
TradeType Add on	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0	Fixed/NonParSwapRateT=0
External Delta T=1 Incl Addon	-2,730	-1,722	-3,668	-4,319	-5,749	-7,183	-7,408	-9,980	112,562	1,195,901
External Delta T=1 ex Addon	-2,730	-1,722	-3,668	-4,319	-5,749	-7,183	-7,408	-9,980	112,562	1,195,901
NRRE Notional T=1 ex Addon	2,123,920	920,767	-561,967	356,242	-199,146	-203,736	-501,265	-364,694	-89,229	-1,699,614,881
Notional Add On	0	0	0	0	0	0	0	0	0	0
TradeType Add on	Fixed/ParSwapRateT=0	Fixed/ParSwapRateT=0	Fixed/ParSwapRateT=0	Fixed/ParSwapRateT=0	Fixed/ParSwapRateT=0	Fixed/ParSwapRateT=0	Fixed/ParSwapRateT=0	Fixed/ParSwapRateT=0	Fixed/ParSwapRateT=0	Fixed/ParSwapRateT=0

With constructing off market BD (copy external derivatives *-1) at t=0, the PVO1 (and notional) of the BD and external derivatives is aligned and there is no need to construct additional BD in all the time buckets. At t=1, the PV01 profiles of the BD and external derivatives are still matched. Also, here the PV01 profile of the NRRE, BD and external derivatives behave differently resulting in small under and over-hedges per time bucket. In practice these small differences are within the limits (per time bucket) and do not necessarily result in additional hedging derivatives. For RMA however the BD need to be adjusted for over hedges (per time bucket). Which is not aligned with risk management.

Accounting entries at market BD per RMA

Moves	Dirty	Pull to par	NII/Clean	RMA lower off	Total RMA	NRRE (Hedged item)	Derivative	Total
NRRE balance						4,877,822		4,877,822
Derivative balance							274,892,887	274,892,887
RMA balance	-274,572,197	0	-6,732,991		-281,305,189			-281,305,189
P&L trading	274,572,197	0			274,572,197		-274,892,887	-320,689
NII			6,732,991		6,732,991	-4,877,822		1,855,169

T=0	NRRE	RMO	BD	ED
PV	153,085,945	-150,900,599	0	-150,900,599
Accrual balance	0	0	0	0
Delta	-1,563,380	1,563,380	-1,563,380	1,563,380

T=1	NRRE	RMO	BD	ED
PV	-125,056,362	123,992,288	-274,572,197	123,992,288
Accrual balance	4,877,822	-7,603,989	6,732,991	-7,603,989
Delta	-1,266,157	1,265,775	-1,265,599	1,265,775

Move	NRRE	RMO	BD	ED
PV	-278,142,307	274,892,887	-274,572,197	274,892,887
Accrual balance	4,877,822	-7,603,989	6,732,991	-7,603,989
Delta	297,223	-297,605	297,781	-297,605

CPV move	-283,020,130	282,496,876	-281,305,189	282,496,876
Pull to par DRM				
NII	4,877,822	-7,603,989	6,732,991	-7,603,989

Accounting entries off market BD per proposal

Moves	Dirty	Pull to par	NII/Clean	RMA lower off	Total RMA	NRRE (Hedged item)	Derivative	Total
NRRE balance						4,877,822		4,877,822
Derivative balance							274,892,887	274,892,887
RMA balance	-274,892,887	1,423,952	-7,603,989		-281,072,923			-281,072,923
P&L trading	274,892,887				274,892,887		-274,892,887	0
NII		-1,423,952	7,603,989		6,180,037	-4,877,822		1,302,214

T=0	NRRE	RMO	BD	ED
PV	153,085,945	-150,900,599	150,900,599	-150,900,599
Accrual balance	0	0	0	0
Delta	-1,563,380	1,563,380	-1,563,380	1,563,380
T=1	NRRE	RMO	BD	ED
PV	-125,056,362	123,992,288	-123,992,288	123,992,288
Accrual balance	4,877,822	-7,603,989	7,603,989	-7,603,989
Delta	-1,266,157	1,265,775	-1,265,775	1,265,775
Move	NRRE	RMO	BD	ED
PV	-278,142,307	274,892,887	-274,892,887	274,892,887
Accrual balance	4,877,822	-7,603,989	7,603,989	-7,603,989
Delta	297,223	-297,605	297,605	-297,605
CPV move	-283,020,130	282,496,876	-282,496,876	282,496,876
Pull to par DRM			1,423,952	
NII	4,877,822	-7,603,989	7,603,989	-7,603,989

WG4 I DAILY AND INTRA-MONTH DESIGNATION AND RUN FREQUENCY UNDER THE RMA MODEL

Information sheet

		<i>Title</i>	WG4 I DAILY AND INTRA-MONTH DESIGNATION AND RUN FREQUENCY UNDER THE RMA MODEL
		<i>Paper writer</i>	EBF Hedge Accounting Workgroup
		<i>Type of paper</i>	Interpretation/clarification
(10)	(9) Interpretation/clarification Fatal flaw: request/demand for change		
		<i>Adjustment required for RMA?</i>	No
		<i>Conceptual issue?</i>	Yes
		<i>RAG⁵</i>	

⁵ Please refer to the latest version of the document "Definition of Traffic Light Colouring/System" for the corresponding definition of the traffic light system applied

Contents

Introduction	67
Background	67
Regulation.....	68
Applicable law and articles (accounting and/or regulatory).....	68
Relevant paragraphs	68
Proposed treatment.....	70
Examples	71
Example 1 – Daily derivative execution without daily NRRE recalculation	71
Example 2 – Intra-month over-hedge identified only at reporting date	71
Operability Concerns	73
Conclusion.....	74
Appendix/Supporting documentation	75

Introduction

Background

The Exposure Draft on the Risk Mitigation Approach (RMA) introduces a framework intended to better align hedge accounting outcomes with banks' dynamic interest rate risk management practices. A key practical question emerging from implementation discussions is the frequency at which RMA designation, benchmark construction, and related adjustments must or may be performed.

During recent discussions within the EBF Expert Group, significant attention was given to whether RMA requires daily or intra-month designation and recalculation, and how this interacts with the requirement to base RMA mechanics on reasonable and supportable information. These discussions highlighted both conceptual ambiguity and operational challenges, particularly for institutions facing substantial intra-month interest rate volatility.

This paper synthesizes those discussions and proposes an interpretation that preserves the intent of the RMA while remaining operable for institutions that run IRRBB models only on a periodical basis, but perform hedging activities more frequently.

Regulation

Applicable law and articles (accounting and/or regulatory)

The Exposure Draft on RMA includes multiple references to the use of reasonable and supportable information, notably in the context of:

- Determining the Net Risk Exposure (NRRE);
- Defining the Risk Mitigation Objective;
- Constructing and adjusting benchmark derivatives; and
- Assessing over-hedging and under-hedging positions.

The Exposure Draft suggests, but does not mandate, a daily risk management cycle, and does not explicitly prescribe the frequency of accounting designation or benchmark recalculation. As a result, interpretation is required to determine whether daily or intra-month actions are obligatory, optional, or conditional.

Relevant paragraphs

- ED 7.2.5 An entity shall determine the net repricing risk exposure by aggregating the repricing risk arising from underlying portfolios based on expected repricing dates. The expected repricing date is the earlier of the dates on which financial instruments included in the underlying portfolios are expected to be settled or to reprice.
- ED 7.2.10 An entity shall determine the net repricing risk exposure based on reasonable and supportable information about the changes in the underlying portfolios that could affect the net repricing risk exposure. The net repricing risk exposure shall be determined with sufficient frequency to ensure that changes in the underlying portfolios are reflected in a timely manner and that the net repricing risk exposure faithfully represents the entity's exposure to repricing risk
- ED 7.4.3 In specifying the risk mitigation objective, an entity shall consider reasonable and supportable information about the amount of repricing risk the entity intends to mitigate for risk management purposes. The actions an entity undertakes to mitigate repricing risk through the use of designated derivatives provide evidence of the entity's risk mitigation objective.
- ED 7.4.4 The frequency with which an entity specifies a risk mitigation objective depends on the nature of the entity's net repricing risk exposure and the frequency with which the entity undertakes risk management activities. A risk mitigation objective specified in accordance with paragraph 7.4.1 shall remain effective until the entity specifies a new risk mitigation objective. Changes to the risk mitigation objective are applied prospectively and do not affect the application of risk mitigation accounting in the previous periods.
- ED 7.4.7 The entity shall use reasonable and supportable information to adjust the benchmark derivatives to ensure that the exposure to repricing risk represented by the benchmark derivatives does not exceed the net repricing risk exposure in any repricing time band.

- ED B7.2.16 To determine the net repricing risk exposure, an entity is required to use reasonable and supportable information that is available at the time the entity makes the determination. Reasonable and supportable information includes information about the contractual and behavioural characteristics of the financial instruments included in the underlying portfolios. It also includes information about other factors that are relevant to estimating the amount of repricing risk in each repricing time band.
- ED B7.4.5 In accordance with paragraph 7.4.1, the risk mitigation objective cannot exceed the net repricing risk exposure in any repricing time band. An entity is not required to apply the requirements in paragraph 7.2.10 to determine an updated net repricing risk exposure before specifying a new risk mitigation objective. However, an entity must consider reasonable and supportable information—available at the date the entity specifies a new risk mitigation objective—about changes to the underlying portfolios that might have occurred since the entity last determined the net repricing risk exposure. For this purpose, an entity is not required to undertake an exhaustive search for information; instead, it is required to consider all reasonable and supportable information that is relevant to the assessment of the net repricing risk exposure.
- ED B7.4.10 The benchmark derivatives are constructed to represent the risk mitigation objective as specified on a particular date. Therefore, unexpected changes in the underlying portfolios that occur after that date might reduce the net repricing risk exposure to below the risk mitigation objective. To ensure that the benchmark derivatives remain representative of the mitigated repricing risk, an entity is required to adjust the benchmark derivatives to reflect the effect of such unexpected changes using reasonable and supportable information.
- ED B7.4.16 In accordance with paragraph 7.4.4, an entity is required to specify a risk mitigation objective with the same frequency with which the entity undertakes risk management activities. However, an entity is not required to measure the risk mitigation adjustment with the same frequency. For example, an entity that specifies a new risk mitigation objective in accordance with paragraph 7.4.4 on a daily or weekly basis due to frequent changes in the underlying portfolios is not required to measure the risk mitigation adjustment on a daily or weekly basis.

Proposed treatment

In managing interest rate risk in the banking book, most of the institutions perform a full calculation of the risk exposure (including NRRE) on a periodical (e.g. monthly) basis but enter into derivatives (risk mitigation transactions) continuously. Such Derivative transactions can be driven by expectations included in the most recent full NRRE calculations but can also be triggered by events that happen during the period, for example significant changes in market rates that impact the expected outcomes of behavioural models and consequently impact the NRRE.

Institutions would like to include a benchmark derivative as soon as a designated derivative is traded to minimize P/L volatility and to have a good alignment between the benchmark derivative and the actual designated derivative. The longer the time between the trade of the designated derivative and the construction of the benchmark derivative, the higher the initial P/L volatility driven by the designated derivative and the larger the misalignment thereafter.

It is proposed that:

1. RMA designation and benchmark creation may occur intra-month, including on a daily basis, where this reflects actual risk management actions.
2. The execution of a risk management-driven derivative transaction, which leads to a new Risk Mitigation Objective, constitutes reasonable and supportable information for the purpose of the construction of a benchmark derivative at the time of execution.
3. The constructed benchmark derivative can be a mirror of the executed designated derivative in case the designated derivative resets on the mitigated rate. Otherwise, the benchmark derivative is based on the mitigated rate and should at time of construction have an opposite value to the designated derivative. This reduces the need to re-balance the benchmark derivatives and any starting value at the moment the benchmark derivative is constructed is amortised (as worked out in WG 3: Transition from IAS39/IFRS9: Benchmark derivatives with initial fair value of zero).
4. Full reconciliation of NRRE, over-hedging, and limit compliance does not need to be available daily, provided that:
 - a. Such assessments are performed periodically (e.g. month-end), and
 - b. Any breaches identified are addressed in accordance with the RMA model (including potential retrospective adjustment of the benchmark derivatives).
5. Institutions can interpret reasonable and supportable information as a combination of:
 - a. The most recent fully available NRRE (typically month-end);
 - b. Risk management rationale for executing derivative transactions during the month.

Under this interpretation, RMA accommodates the reduction of intra-month volatility on newly traded hedging derivatives without forcing institutions to produce fully granular daily NRRE calculations, which may not be operationally feasible.

Examples

The following examples illustrate how the proposed interpretation operates in practice. They are intentionally simplified but reflect common RMA fact patterns observed in banks' interest rate risk management.

Example 1 – Daily derivative execution without daily NRRE recalculation

Facts

- A bank manages a closed portfolio of fixed-rate retail mortgages under RMA
- At 31 March, the Net Risk Exposure (NRRE) for the relevant repricing bucket is calculated at EUR -1,000m PV01-equivalent
- The bank has designated and benchmark derivatives of EUR 900m PV01-equivalent at 31 March
- On 10 April, market rates increase sharply, creating additional convexity risk. The bank expects the NRRE to be EUR -1,100m PV01-equivalent. This expectation is not based on a full NRRE calculation, but for example on a simplified calculation, a partial calculations and/or expert judgment.
- The bank executes an external pay-fixed interest rate swap with a PV01 of EUR 150m to mitigate this risk

Application of the proposed interpretation

- The execution of the derivative on 10 April constitutes reasonable and supportable information that additional risk mitigation is required
- A benchmark derivative of EUR 150m PV01-equivalent is designated on the trade date of the external derivative
- No full recalculation of the NRRE is required on 10 April
- At 30 April, the NRRE is recalculated at EUR -1,100m, and total benchmark derivatives amount to EUR 1,050m

Outcome

- No over-hedge exists at month-end
- The intra-month designation remains valid and aligned with risk management actions

Example 2 – Intra-month over-hedge identified only at reporting date

Facts

- Same portfolio as example 1
- At 31 March, NRRE is EUR -1,000m
- The PV01 exposure of the designated and benchmark derivatives s EUR 900m

- During April, three derivatives are executed on different days with a combined PV01 of EUR 120m
- These trades are executed in response to observed market volatility and are documented as risk management actions

Application of the proposed interpretation

- Each derivative execution provides reasonable and supportable information at its respective trade date
- Benchmark derivatives are designated intra-month, without daily NRRE recalculation
- At 30 April, the recalculated NRRE is EUR -1,000m, while cumulative benchmark derivatives amount to EUR 1,020m

Outcome

- An over-hedge of EUR 20m is identified at month-end
- The over-hedge is addressed through the RMA mechanics (e.g. unexpected events / excess or de-designation) at the reporting date and a correction is made on the benchmark derivatives
- The existence of a small month-end over-hedge does not invalidate the intra-month benchmark designations that were reasonable when made

Operability Concerns

Given the interpretation set out in this paper, where a benchmark derivative can be created at the moment an entity enters into an external derivative for risk management purposes, there are no major concerns.

This is supported by B7.4.3. which outlines that the risk mitigation objective is a matter of fact and not merely an assertion. It is observable through the activities an entity undertakes to manage repricing risk on a net basis by transferring the risk to entities external to the reporting entity. In other words, the risk mitigation objective is required to be evidenced by the designated derivatives an entity uses to mitigate repricing risk. As a result, construct benchmark derivatives to replicate the timing and amount of repricing risk as specified in the risk mitigation objective (through execution of the external derivative).

Rationale is that under this interpretation there is no need to calculate a comprehensive NRRE on a daily basis, which is for many institutions unrealistic given the availability of NRRE inputs like behavioural models and prepayment assumptions.

Further, the interpretation gives the possibility to align the timing of the construction of benchmark derivatives to the execution of the designated derivatives. This reduces intra-month P/L, which can be material. Especially in periods with high market volatility, where hedging activities are larger.

Conclusion

The RMA should be interpreted in a manner that allows intra-month and daily construction of benchmark derivatives when driven by genuine risk management actions, evidenced by executed derivatives, without imposing the requirement for fully granular daily NRRE calculations, which seems for most banks an unrealistic requirement.

Reasonable and supportable information should be understood dynamically, reflecting the information actually used by risk management at the time decisions are made, supplemented by periodic full reconciliation. This interpretation supports the core objective of RMA: reducing artificial accounting volatility while maintaining discipline against over-hedging.

We believe this interpretation is feasible under the Exposure Draft as published by the IASB.

Appendix/Supporting documentation

N/A

WG5 I RMA EQUITY MODELLING

Information sheet

		<i>Title</i>	WG5 I RMA EQUITY MODELLING
		<i>Paper writer</i>	EBF Hedge Accounting Workgroup
		<i>Type of paper</i>	Interpretation/clarification
(11)	<i>Interpretation/clarification</i>		
(12)	<i>Fatal flaw: request/demand for change</i>		
		<i>Adjustment required for RMA?</i>	Yes
		<i>Conceptual issue?</i>	No
		<i>RAG⁶</i>	

⁶ Please refer to the latest version of the document "Definition of Traffic Light Colouring/System" for the corresponding definition of the traffic light system applied

Contents

Introduction	79
Background	79
Executive summary	79
Regulation	80
Applicable law and article 17(1) (accounting and/or regulatory)	80
Proposed treatment	82
Approach 1: Exclude modelled equity from RMA (no proxy)	83
Approach 2: Equity modelling as a proxy for the repricing risk of eligible assets not funded by liabilities	84
Approach 3: Internal equity modelling using variable rate assets	85
Approach 4: Internal equity modelling using fixed rate assets	87
Examples	89
Approach 1: Exclude modelled equity from NRRE (no proxy)	89
Approach 2: Equity modelling as a proxy for the repricing risk of eligible assets not funded by liabilities	89
Approach 3: Internal equity modelling using variable rate assets	91
Approach 4: Internal equity modelling using fixed rate assets	91
Operability concerns	93
Conclusion	94
Appendix/Supporting documentation	95

Introduction

Background

In interest rate risk management practice (including IRRBB/CSRBB), banks typically view equity as a non-interest-bearing source of funding and treat it as economically similar to fixed-rate funding at a 0% effective rate. Consistent with established risk management practices, this funding source is often modelled using fixed-term structures (for example, through replication portfolios) (the “equity model”, as referred to in this paper). As a consequence, the equity model gives rise to repricing risk (interest rate risk) as the modelled equity funding profile evolves across maturities.

This paper considers how such equity modelling should be reflected in RMA, with specific reference to the “equity modelled proxy” described in paragraph B7.2.17 of the ED. For the purposes of this paper, equity refers to instruments classified as equity instruments in accordance with IAS 32, including certain AT1 instruments.

Executive summary

This paper does not advocate for the inclusion of equity as an eligible underlying item within the RMA model. Rather, it assesses the application of the ED existing equity modelling proxy guidance—specifically paragraph B7.2.17—in circumstances where equity is utilized as a funding source within an entity’s risk management framework.

Consistent with the principles-based nature of the ED and the interpretative flexibility implied by paragraph B7.2.17, the paper identifies two operationally viable application approaches which banks consider critical to achieving a decision-useful and operationally practicable RMA model:

- The use of equity modelling as a proxy to represent the repricing risk of eligible assets that are not funded by liabilities; and
- The application of internal equity modelling techniques based on fixed-rate assets.

To preserve a principles-based and operationally workable application of the model, we recommend that the IASB reconsider the prescriptive example in paragraph B7.2.17 referring to variable-rate financial assets as proxy instruments. In particular, to avoid an unduly narrow interpretation of the proxy concept within the NRRE, a final standard should articulate at a higher level that proxies are not limited to variable-rate financial assets but may also encompass fixed-rate financial assets where these appropriately reflect the risk management strategy and the underlying exposure being represented.

Regulation

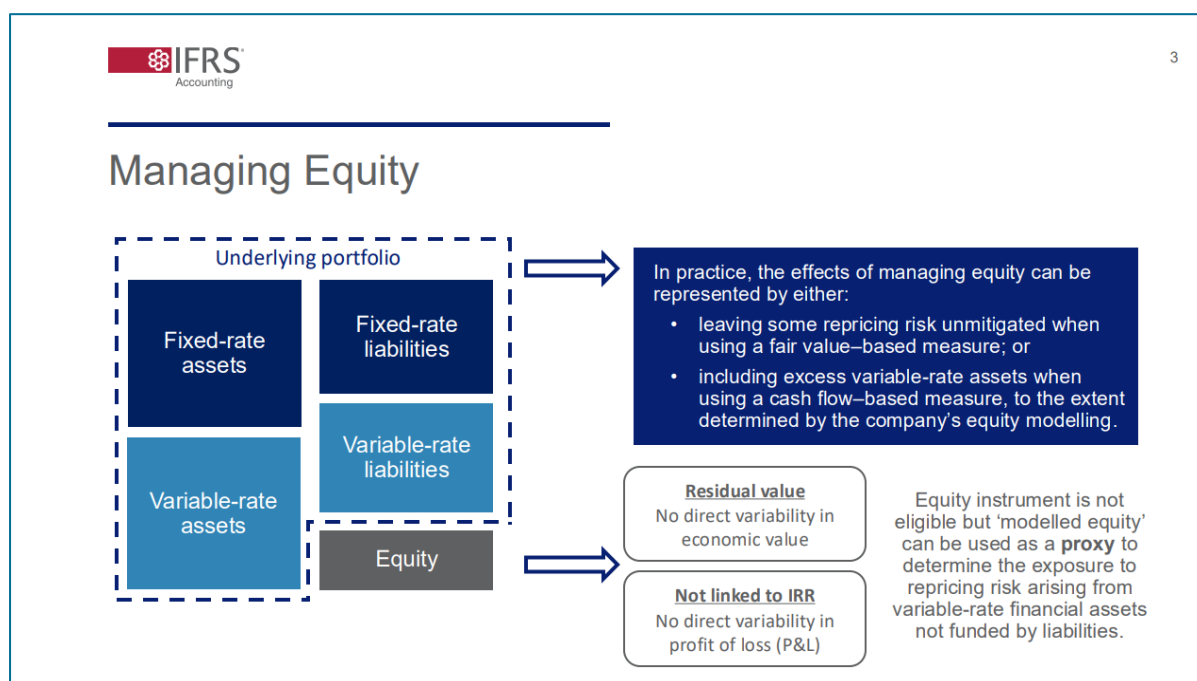
Applicable law and articles (accounting and/or regulatory)

- ED B7.2.17 All financial assets measured at amortized cost and fair value through other comprehensive income are eligible for inclusion in underlying portfolios. However, an entity might not include in underlying portfolios all of its eligible financial assets that expose the entity to repricing risk. For example, in accordance with its risk management strategy, an entity might view cash balances (such as central bank deposits) and highly liquid variable-rate financial assets as exposing the entity to repricing risk only to the extent that these financial assets are funded by equity. To determine the exposure to repricing risk arising from these variable-rate financial assets, the entity might use internal modelling methodologies (such as replicating portfolios) as a proxy for this exposure (sometimes referred to as 'equity modelling'). If an entity uses such methodologies for risk management purposes, it must determine the net repricing risk exposure arising from the relevant underlying portfolios in the same way.
- ED BC68 During the development of the proposals in the Exposure Draft, stakeholders said they model equity (that is, the residual between their financial assets and financial liabilities) as stable funding of cash and highly liquid financial assets as part of their repricing risk management activities. These stakeholders consider equity to be a non-interest-bearing source of funding and regard it as a fixed-rate liability that provides funding to the entity at an effectively 0% interest rate (much like financial liabilities repayable on demand). This approach is commonly referred to as equity modelling or an equity model book.
- ED BC69 The IASB acknowledged that an entity could use various approaches to determine the extent to which repricing risk arises from the entity's variable rate financial assets. In the IASB's view, modelling equity as a proxy for the repricing risk arising from cash and highly liquid financial assets (if they are eligible for inclusion in the underlying portfolios) as part of an entity's repricing risk management activities is different from mitigating exposure to repricing risk arising from the entity's equity instruments. Therefore, the IASB concluded that the approach described in paragraph BC68 does not change the economic effects of an entity's risk mitigation activities as reflected in its financial statements. The IASB maintains that equity is a residual for financial reporting purposes (see paragraph 4.63 of the Conceptual Framework) and therefore is not eligible for inclusion in the underlying portfolios—even if it may be used as a proxy in risk mitigation accounting.
- ED IE189 Because an entity's own equity is not eligible to be included in its underlying portfolios, Entity E does not include the CU70 million of equity in its underlying portfolios. However, [paragraph B7.2.17 of IFRS 9] does permit an entity to use internal equity modelling as a proxy in determining the amount of variable-rate financial instruments to include in its underlying portfolios for the purposes of calculating its net repricing risk exposure.

ED IE190 Based on its internal modelling, Entity E includes a CU40 million nominal amount of central bank deposits in the repricing time band for 20X1 and a CU30 million nominal amount of central bank deposits in the repricing time bands for 20X2 and 20X3.

Proposed treatment

The RMA ED acknowledges the risk management practice by explicitly stating the “equity modelled proxy” in paragraph B7.2.17, which contemplates reflecting equity-funded repricing risk by referencing eligible assets rather than treating equity itself as an eligible underlying item. Referencing the eligible assets in paragraph B7.2.17 to variable-rate financial assets could unintentionally lead to a strict interpretation to include only these assets. The IASB has illustrated the intended application of equity modelled proxy in the following slides.



IFRS Accounting 22

Modelled equity as a proxy (paragraphs B7.2.17)

- Companies use various approaches and methodologies to determine their exposure to repricing risk
- Some model and manage equity as if it was a fixed-rate liability when mitigating repricing risk
- In doing that, company may decide either:

Variable-rate assets	Fixed-rate assets
Include some variable-rate assets and mitigate the variability in net interest income when modelled equity is considered to provide funding for variable-rate assets	Exclude some fixed-rate assets and accept the variability in economic value of equity when modelled equity is considered to provide funding for fixed-rate assets

- ED requires that net repricing risk exposure determined consistently with risk management strategy and practices
- BUT modelled equity should represent repricing risk arising from company's underlying portfolios and should not exceed the amount of the assets for which it is a proxy

However, because equity remains outside the scope of eligible underlying items, practical application of the proxy requires consideration on how an entity evidences (within the risk management principle of the ED) the linkage between equity funding and the eligible assets used in the proxy. The industry believes that reference to the underlying risk management approach to equity modelling ensures a consistent, operable, and auditable application that reflects an entity's risk management intention.

This paper outlines four potential approaches for reflecting equity modelling within the RMA framework. However, only two of these approaches are considered to provide operationally viable and decision-useful outcomes. Notwithstanding this assessment, the principles-based nature of the ED suggests that alternative approaches may also emerge in practice, provided they are consistent with the underlying objective of faithfully representing the entity's risk management activities.

In addition, where relevant floating rate exposures are not included in RMA, entities should be able to apply the IFRS 9 general hedge accounting model (for example, cash flow hedge accounting) to reflect risk management. This may arise, for instance, for central bank cash balances that reprice at the relevant deposit rate and are designated in a cash flow hedge relationship.

Approach 1: Exclude modelled equity from RMA (no proxy)

Possibly the simplest approach would be to exclude equity / modelled equity from the RMA model entirely, i.e. not to apply any proxy solution for equity modelling within RMA. For the avoidance of doubt, this approach assumes that derivatives executed to hedge the interest rate risk arising from modelled equity would still be included in the RMA model (i.e. those derivatives cannot be excluded from the RMA designation).

Depending on the "sign" of the net risk reduction exposure (NRRE) in the relevant time bands, excluding modelled equity from the RMA model may have materially different effects:

- Net fixed-rate asset exposure in the modelled equity time bands (NRRE sign consistent with a net asset position):
Excluding modelled equity from RMA as proxy would increase the NRRE in the affected time bands and is therefore likely to result in RMA *under-hedging* (i.e. $RMO < NRRE$) within those bands. This may create a "natural buffer" against subsequent reductions in NRRE arising from unexpected changes, thereby reducing the likelihood of mechanical over-hedging outcomes, unless 'receiver swaps' related to equity are not larger than the net asset NRRE. This outcome should be acceptable provided the resulting residual risk position ($NRRE - RMO$) remains within the entity's approved risk limits.
- Net fixed-rate liability exposure in the modelled equity time bands (NRRE sign consistent with a net liability position):
Excluding modelled equity from the RMA model as proxy of the NRRE would reduce (or potentially invert) the NRRE in the affected time bands and could create artificial RMA over-hedging (i.e. $NRRE < RMO$). In this scenario, the

approach may introduce accounting-driven volatility that do not reflect underlying risk management intent.

Refer to section 4.1 for an example of excluding modelled equity from the NRRE.

Summary:

- Easy to implement (+)
- Creates a natural buffer in a net fixed asset scenario (+)
- Results in over-hedging in RMA in a fixed rate liability scenario (-)

Approach 2: Equity modelling as a proxy for the repricing risk of eligible assets not funded by liabilities

A central feature of the ED is its alignment with risk management measurement, i.e. an entity is permitted to use the same repricing risk measure it uses in risk management to quantify net repricing risk exposure, including (i) cash flow/ earnings measures or (ii) fair value/economic value measures (for example, PV01). The ED also contemplates that some entities may manage repricing risk using different measures across time bands—for example, focusing on cash flows/earnings outcomes in shorter time bands and fair value/economic value outcomes in longer time bands. Consistent with this, the ED requires the RMO to be determined using the same measure that is used to quantify the net repricing risk exposure and provides “present value per basis point” as an example in case of a fair value/economic value measure.

However, the ED draws an important boundary in relation to equity. As outlined above, equity instruments are not eligible for inclusion in the underlying portfolios. Those portfolios are limited to eligible financial assets, eligible financial liabilities and certain future transactions. The Basis for Conclusions explains that equity remains a residual for financial reporting purposes and is not itself an eligible underlying item, including because amounts recognised in equity do not affect profit or loss in the way the model seeks to depict.

Notwithstanding this boundary, the ED permits an entity to reflect the effect of equity funding through “equity modelling” (also referred to as an “equity model book”) in a specific and narrower sense. Where, in accordance with its risk management strategy, an entity views cash balances (such as central bank deposits) and highly liquid variable rate financial assets as exposing the entity to repricing risk only to the extent they are funded by equity, the ED permits the entity to use internal modelling methodologies (such as replicating portfolios) as a proxy to determine the repricing risk exposure arising from those eligible variable rate assets. The Basis for Conclusions acknowledges that stakeholders often view this as treating equity economically like stable 0% fixed rate funding; however, the IASB characterizes the permitted accounting outcome more narrowly—namely, equity modelling may be used as a proxy to determine repricing risk arising from eligible variable rate assets, rather than treating equity as an underlying fixed rate liability in its own right.

This distinction is reflected in the wording of paragraph B7.2.17, which permits eligible financial assets measured at amortised cost and at fair value through other comprehensive income to be included in underlying portfolios, but notes that an entity might not include all eligible financial assets that expose it to repricing risk. The paragraph gives the example that an entity might view central bank deposits and highly liquid variable rate assets as exposing the entity to repricing risk only to the extent these assets are funded by equity. To determine the repricing risk exposure arising from those assets, the entity might use

internal modelling methodologies (such as replicating portfolios) as a proxy (equity modelling). If such methodologies are used for risk management purposes, the ED requires the entity to determine the net repricing risk exposure arising from the relevant underlying portfolios in the same way, i.e. either (i) cash flow/ earnings measure or (ii) fair value/economic value measure.

In contrast, the ED does not permit designation of “equity used for funding purposes” itself as if it were a fixed rate liability within the underlying portfolios. In practical terms, when completing the RMA documentation required by paragraph 7.1.7, an entity would:

- (i) identify the relevant variable rate financial assets that are viewed as funded by equity for RMA purposes (paragraph 7.1.7(b)(i)); and
- (ii) for measurement purposes, reference and apply the equity modelling methodology used in risk management (paragraph 7.1.7(b)(ii)).

Accordingly, equity is not included directly as an underlying item in the RMA model; rather, equity modelling is used for measurement purposes to determine the repricing risk exposure of eligible variable rate assets that are viewed as equity funded. On this reading, the current wording of B7.2.17 supports both a cash flow/ earnings measure and EVE/PV01 based RMA approach in which equity funding is reflected through equity modelling as a proxy for the repricing risk of eligible assets not funded by liabilities.

Summary:

- Easy to implement (+)
- Aligned to risk management (+)
- Judgmental interpreting that could be challenged (-)

Approach 3: Internal equity modelling using variable rate assets

Some entities view certain variable-rate assets (for example, central bank deposits and highly liquid variable-rate instruments) as exposing the entity to repricing risk only to the extent that these assets are funded by equity. In those circumstances, an entity may seek to include such variable-rate assets in an RMA model as a proxy for the repricing risk that is managed through equity modelling.

This outcome is contemplated in paragraph B7.2.17 of the Exposure Draft (ED) and is illustrated further in Example 23 of the Illustrative Examples (for example, in IE189–IE190).

B7.2.17 All financial assets measured at amortised cost and fair value through other comprehensive income are eligible for inclusion in underlying portfolios. However, an entity might not include in underlying portfolios all of its eligible financial assets that expose the entity to repricing risk. For example, in accordance with its risk management strategy, an entity might view cash balances (such as central bank deposits) and highly liquid variable-rate financial assets as exposing the entity to repricing risk only to the extent that these financial assets are funded by equity. To determine the exposure to repricing risk arising from these variable-rate financial assets, the entity might use internal modelling methodologies (such as replicating portfolios) as a proxy for this exposure (sometimes referred to as ‘equity modelling’). If an entity uses such methodologies for risk management purposes, it must determine the net repricing risk exposure arising from the relevant underlying portfolios in the same way.

Analysis

- IE189** Because an entity’s own equity is not eligible to be included in its underlying portfolios, Entity E does not include the CU70 million of equity in its underlying portfolios. However, [paragraph B7.2.17 of IFRS 9] does permit an entity to use internal equity modelling as a proxy in determining the amount of variable-rate financial instruments to include in its underlying portfolios for the purposes of calculating its net repricing risk exposure.
- IE190** Based on its internal modelling, Entity E includes a CU40 million nominal amount of central bank deposits in the repricing time band for 20X1 and a CU30 million nominal amount of central bank deposits in the repricing time bands for 20X2 and 20X3.

In addition, earlier IASB Staff Papers provide explanatory context on how such variable-rate assets could be reflected in an RMA model and how the associated risk may be managed using a cash flow/earnings-based measure, consistent with the entity’s risk management practices.

However, based on the ED alone, it is not fully clear (i) the extent to which a robust linkage is required between the amount of “modelled equity” and the specific variable-rate assets included in the RMA model, and (ii) how such linkage is expected to be evidenced and documented in practice. From the ED, it is unclear if the variable-rate assets included cannot be selected on an arbitrary basis; or if, there must be a demonstrable connection to the entity’s equity modelling and its risk management approach.

A further application question is whether the equity-funded variable-rate assets can be managed through a separate RMA model that includes (a) those assets and (b) the derivatives used to hedge the repricing risk attributed to modelled equity. It is not clear whether a stand-alone model of this nature would satisfy the ED’s emphasis on managing repricing risk on a net basis, or whether “net basis” implies that the RMA model should reflect a broader set of underlying items, potentially including both assets and liabilities.

Conversely, if the equity-funded variable-rate assets must be included within an RMA model that also includes other repricing risk exposures, this may require combining cash flow/earnings-based and fair value/economic value-based measures within the same RMA model. This would add complexity and raises a more specific question regarding the ED's constraints on measurement bases across time bands, including whether it could lead to a situation where, for the same time band, both a cash flow/earnings-based measure and a fair value/economic value-based measure would be required. Such an outcome would appear inconsistent with the requirement in paragraph B7.2.14 of the ED that constrains the use of measurement bases at the time-band level. We refer to paper Risk measure per time bucket.

B7.2.14 An entity is permitted to use different measures to quantify the net repricing risk exposure for different repricing time bands. However, the entity is required to apply the same measure to all exposures in the same repricing time band. For example, an entity might:

Summary:

- Added complexity if not in a separate model, i.e. EVE hedge and NII Hedge in one RMA model (-);
- Uncertainty whether ED allows separate RMA model (-), We refer to paper Risk measure per time bucket.
- Uncertainty on required relationship between equity and floating rate assets (-)

Approach 4: Internal equity modelling using fixed rate assets

While the ED's discussion of the equity modelled proxy is framed primarily around eligible variable-rate assets, the ED does not state anything regarding equity funding of fixed-rate assets, by for example excluding certain fixed-rate assets from the RMA designation boundary (refer to IASB's illustrations above). The ED, however, does not provide further application guidance on this potential outcome.

In informal discussions, IASB Staff have clarified that any such exclusion would need to be consistent with how the entity manages repricing risk in practice—i.e., fixed-rate assets could be excluded only where the entity's risk management strategy and measurement exclude those assets based on the amount of "modelled equity" (such that the excluded assets are not reflected in the entity's net repricing risk exposure (NRRE) for risk management purposes). The ED does not prescribe specific requirements regarding the nature or extent of documentation necessary to evidence the linkage between (i) an entity's equity modelling approach as applied in risk management and (ii) its corresponding application within the RMA framework, including any associated treatment of fixed rate asset exclusions. Nonetheless, we consider that the principles-based orientation of the ED, together with its emphasis on alignment with risk management practices, provides a sufficiently robust basis to support consistent application, with entities drawing on existing internal risk management documentation to substantiate this linkage.

An example illustrating the interaction between fair value/economic value measures and cash flow/earnings-based measures is included in section 4.4.

Summary:

- Requires identification of the relevant fixed assets (+/-)
- Requires some allocation logic to address scenarios where fixed asset changes (e.g, where are unexpected changes coming from) (-)
- Relationship requirement between equity and fixed rate assets uncertain (-)

Examples

Approach 1: Exclude modelled equity from NRRE (no proxy)

Net asset

RISK: Fixed rate exposures	
Assets	100
Liabilities	-70
Equity	-20
Net	10
Swaps	-10



RMA: Fixed rate exposures	
Assets	100
Liabilities	-70
Net	30
Swaps	-10

Net liability

RISK: Fixed rate exposures	
Assets	50
Liabilities	-70
Equity	-20
Net	-40
Swaps	40



RMA: Fixed rate exposures	
Assets	50
Liabilities	-70
Net	-20
Swaps	40

In the “net asset” scenario, excluding equity results in an RMA under-hedge (Swaps < NRRE) of 20, whereas in the “net liability” scenario it leads to an RMA over-hedge (Swaps > NRRE) of 20.

Approach 2: Equity modelling as a proxy for the repricing risk of eligible assets not funded by liabilities

This example illustrates an application of paragraph B7.2.17 of the ED in which an entity reflects “equity modelling” through a proxy based on eligible variable-rate assets that, under the entity’s risk management strategy, are viewed as exposing the entity to repricing risk only to the extent they are funded by equity. The example is presented using a single present value / economic value repricing-risk measure (for example, PV01), consistent with the ED’s requirement that the RMA outcome (RMO) is determined using the same measure used to quantify the net repricing risk exposure (NRRE) for the relevant underlying portfolios.

In the fact pattern it is assumed that the entity holds cash balances (including central bank deposits) and other highly liquid variable-rate assets that reprice at overnight or short-term benchmark rates. Within the entity’s IRRBB/CSRBB framework, these assets are treated as contributing to repricing risk only for the portion that is economically funded by equity (i.e., the portion not offset by interest-bearing liabilities). The amount and maturity profile of this equity-funded portion is determined using the entity’s internal modelling methodology (for example, a replication portfolio approach) that is subject to governance approval and periodic recalibration.

Consistent with 7.1.7(i), the entity formally includes in the underlying portfolio the relevant eligible variable-rate assets (or a defined pool of such assets) but in line with B7.2.17 uses its internal equity modelling methodology as a proxy to determine the net repricing risk exposure (NRRE) arising from those assets. The entity does not designate equity as an underlying item; instead, equity modelling is used for measurement purposes to determine the exposure to repricing risk arising from eligible assets.

For both NRRE and RMO, the entity applies a single PV-based repricing-risk measure (for example, PV01) in the relevant time bands. Interest rate derivatives used to mitigate the repricing risk attributed to the equity-funded portion (for example, interest rate swaps) are included in the RMA model consistent with the risk management strategy being represented. The RMO is determined using the same PV-based measure as the NRRE for the underlying floating rate asset portfolio. In this context, floating rate assets are conceptually represented on a hypothetical fixed rate basis consistent, such that the net notional position serves as a proxy for the forward exposure, with the associated coupon profile and risk characteristics derived through the application of observable forward rates.

NRRE - Jan 26					
PV01 €'000: (-) ve Rec fixed, (+) ve Pay fixed					
Item	<2Y	2-5Y	5-10Y	10Y+	Total
Mortgages	(1,000)	(10,000)	(12,000)	(15,000)	(38,000)
Demand deposits	2,000	15,000	30,000	8,000	55,000
EMB	1,000	2,000	3,000	0	6,000
Pipeline activity	0	1,000	1,000	1,000	3,000
Call money (remunerated depo)	500	1,000	2,000	0	3,500
NRRE	2,500	9,000	24,000	(6,000)	29,500
RMO & BD - Jan 26					
PV01 €'000: (-) ve Rec fixed, (+) ve Pay fixed					
Item	<2Y	2-5Y	5-10Y	10Y+	Total
Treasury derivatives (DD)	(2,200)	(8,000)	(25,000)	5,000	(30,200)
Over/Under hedge	88%	89%	104%	83%	102%
BD designation (NRRE util.)	(2,200)	(8,000)	(24,000)	5,000	(29,200)
NRRE utilisation (RMA)	88%	89%	100%	83%	99%
Benchmark derivative construction					
NRRE item	<2Y	2-5Y	5-10Y	10Y+	Total
Mortgages	(880)	(8,889)	(12,000)	(12,500)	(34,269)
Demand deposits	1,760	13,333	30,000	6,667	51,760
EMB	880	1,778	3,000	0	5,658
Pipeline loans	0	889	1,000	833	2,722
Call money (rem. Deposits)	440	889	2,000	0	3,329
BD designation	2,200	8,000	24,000	(5,000)	29,200

To ensure that the assets included are not selected on an arbitrary basis, the entity should document the linkage between (i) the equity model book as managed in risk management and (ii) the eligible assets included in the RMA model by reference to the entity's underlying risk management, e.g.:

- The IRRBB/CSRBB strategy and balance sheet funding policy describing the treatment of equity as stable non-interest-bearing funding;
- Equity modelling methodology documentation (including replication assumptions and horizon);

- Governance approvals (e.g., ALCO/model risk governance) for the equity modelling scope and periodic recalibrations; and
- Document the identified asset pool to which the equity model is applied and that the resulting exposure is included (or excluded) in the RMA model (NRRE).

This example demonstrates how B7.2.17 can be applied using a PV-based measure without treating equity as an eligible underlying item, by using equity modelling as a proxy to determine repricing risk arising from eligible variable-rate assets. However, as discussed in Section 3.2, the application of the equity modelling proxy in paragraph B7.2.17 is not limited to a PV based metric; where consistent with the entity's risk management approach, it may also be implemented using alternative measures, such as a cash flow or net interest income (NII) basis.

The equity proxy mentioned in B7.2.17 reflects the principle-based nature of the ED such that the evidence of a linkage between the amount of modelled equity and the eligible asset pool should follow the underlying principle of alignment to risk management. As a result, except for the identification of a notional amount of floating rate assets in line with 7.1.7(i), we expect that the evidence of a linkage is based in reference to the documentation examples mentioned above.

Approach 3: Internal equity modelling using variable rate assets

As outlined above, this approach would require a combination of a cash-flow based measure and a fair value-based measure in the same RMA model. This could lead to situation where for the same time band both a cash flow-based measure and a fair value-based measure is required, which is not allowed under the ED. Therefore, a detailed example has not been added.

Approach 4: Internal equity modelling using fixed rate assets

This example illustrates the approach discussed in section 3.4 in a simplified way. Rather than modelling equity through a proxy in line with the example in section 3.2, the NRRE is constructed on a net basis by offsetting (i) the fixed-rate mortgage asset position against (ii) the fixed-rate modelled EMB position when determining the net repricing risk exposure for the relevant time buckets.

The intent is to reflect the economically managed net fixed-rate exposure that remains after considering the EMB funding profile.

NRRE - Jan 26					
PV01 €'000: (-) ve Rec fixed, (+) ve Pay fixed					
Item	<2Y	2-5Y	5-10Y	10Y+	Total
Net assets	0	(8,000)	(9,000)	(15,000)	(32,000)
Demand deposits	2,000	15,000	30,000	8,000	55,000
Pipeline activity	0	1,000	1,000	1,000	3,000
Call money (remunerated depo)	500	1,000	2,000	0	3,500
NRRE	2,500	9,000	24,000	(6,000)	29,500

RMO & BD - Jan 26					
PV01 €'000: (-) ve Rec fixed, (+) ve Pay fixed					
Item	<2Y	2-5Y	5-10Y	10Y+	Total
Treasury derivatives (DD)	(2,200)	(8,000)	(25,000)	5,000	(30,200)
Over/Under hedge	88%	89%	104%	83%	102%
BD designation (NRRE util.)	(2,200)	(8,000)	(24,000)	5,000	(29,200)
<i>NRRE utilisation (RMA)</i>	88%	89%	100%	83%	99%

Benchmark derivative construction					
NRRE item	<2Y	2-5Y	5-10Y	10Y+	Total
Net assets	0	(7,111)	(9,000)	(12,500)	(28,611)
Demand deposits	1,760	13,333	30,000	6,667	51,760
Pipeline loans	0	889	1,000	833	2,722
Call money (rem. Deposits)	440	889	2,000	0	3,329
BD designation	2,200	8,000	24,000	(5,000)	29,200

In practice, this net approach results in an NRRE that reflects only the residual fixed-rate exposure (mortgages net of EMB) and therefore changes the extent of under-/over-hedging when compared with the designated RMO derivatives.

Conceptually, it is important that this net approach should be supported by the entity's risk management strategy such that the entity considers the net of the mortgage assets and equity modelled fixed rate liability for risk management purposes. As with the other approaches, consistent application (including the choice of time buckets) and clear documentation of (i) the mortgage/EMB linkage (based on existing internal risk management documentation) and (ii) how the net position is measured and updated are key to avoid interpretational challenges and unintended discontinuation when profiles change over time.

Operability concerns

The different approaches outlined in Section 3 give rise to varying degrees of operational complexity, particularly in relation to measurement consistency, modelling requirements, and auditability.

The table below summarizes the key operability considerations for each approach, including their alignment with risk management practices.

Approach	Key operability concerns	Impact on implementation	Complexity
1. Exclude modelled equity from NRRE	Creates artificial over-/under-hedging depending on exposure; must be applied consistently across Group and over time; limited flexibility if exposures change; does not reflect economic risk management	Simple to implement but results in accounting distortions and governance constraints	Low–Medium
2. Equity modelling as proxy (ED-aligned approach)	Interpretation uncertainty arises from the ED's non-prescriptive guidance, with paragraph B7.2.17 potentially implying a more direct linkage between equity funding and eligible assets rather than reliance on internal equity modelling.	Moderate documentation, modelling and validation effort, but largely aligned with existing risk management frameworks	Medium
3. Internal equity modelling using variable rate assets	Unclear linkage requirements; potential need to mix cash flow and fair value measures; uncertainty on separate vs integrated RMA model; high data and modelling requirements	Significant modelling, data, and governance complexity; potential conflicts with ED measurement rules	High
4. Internal equity modelling using fixed rate assets	Interpretation uncertainty arises from the ED's non-prescriptive guidance, with paragraph B7.2.17 potentially implying a more direct linkage between equity funding and eligible assets rather than reliance on internal equity modelling.	May require more robust justification compared to Approach 2 above, notwithstanding similarly straightforward mechanics.	Medium

In addition, a designation outside of the RMA model under the IFRS 9 (general model) cash flow hedge relationship requires separation from RMA (in line with the entity's risk management strategy requirement under IFRS 9). The underlying hedge accounting framework introduces complexity from having to apply the IFRS 9 hedge accounting requirements and leads to a continuation of proxy hedge accounting application that RMA intends to avoid.

Conclusion

As set out above, the ED draws an important boundary for equity: equity instruments are not eligible underlying items for RMA. At the same time, the ED permits the use of equity modelling (for example, replicating portfolios) as a proxy to determine the repricing risk arising from eligible financial assets to the extent those assets are viewed, under the entity's risk management strategy, as funded by equity. This provides a basis for reflecting the economic effect of equity funding within the measurement of net repricing risk exposure (NRRE) without treating equity itself as an underlying item.

This paper identifies four potential application approaches, each giving rise to distinct accounting outcomes and operability considerations, as discussed in Section 5. However, we consider that only the approaches set out in Sections 3.2 and 3.4 provide operationally viable and decision useful outcomes and are therefore critical to achieving a broadly acceptable RMA model for the banking sector.

Across all approaches, a fundamental principle should be alignment with the entity's risk management practices, including the selection of appropriate measurement metrics and the basis for documenting and evidencing the population of eligible financial assets funded by equity.

To support consistent application of these approaches in practice, it is essential that the final RMA Standard retains its principles-based nature. In particular, we encourage the IASB to avoid introducing implicit constraints—such as through narrowly framed examples—that could give rise to unduly restrictive interpretations of the model and thereby limit its operational applicability.

In addition, where relevant floating-rate exposures are not captured within an RMA designation boundary, hedge accounting under IFRS 9's general model (including cash flow hedges), subject to meeting IFRS 9 requirements, should remain available and should not be inadvertently constrained by the design of RMA. Nonetheless, reliance on parallel approaches across RMA and IFRS 9 may increase complexity and reduce transparency if the interaction is not clearly articulated.

Appendix/Supporting documentation

N/A

WG5 I RISK MEASUREMENT PER TIME BUCKET

Information sheet

		<i>Title</i>	WG5 I RISK MEASUREMENT PER TIME BUCKET
		<i>Paper writer</i>	EBF Hedge Accounting Workgroup
		<i>Type of paper</i>	Fatal flaw: request/demand for change
(13)	Interpretation/clarification		
(14)	Fatal flaw: request/demand for change		
		<i>Adjustment required for RMA?</i>	Yes
		<i>Conceptual issue?</i>	Yes
		<i>RAG⁷</i>	

⁷ Please refer to the latest version of the document "Definition of Traffic Light Colouring/System" for the corresponding definition of the traffic light system applied

Contents

Introduction	99
Background	99
Regulation.....	100
Applicable law and articles (accounting and/or regulatory).....	100
RMA paragraphs on measures to quantify the NRRE and RMO	100
Proposed treatment.....	104
Restriction to use a combination of cash flow and fair value-based measure within the same time bucket.....	104
Examples	105
Simple Example	105
Example 1: Cash flow and fair value measures in the same/all bucket(s) – 5-year rolling investment EMB.....	105
Example 2: Cash flow and fair value measures in the same/all bucket(s) – Alternative EMB investment profile.....	106
Interaction of fair value and cash flow measure.....	108
Scaled Example.....	111
Operability concerns	112
Conclusion.....	113
Appendix/Supporting documentation	114

Introduction

Background

The IASB published the Exposure Draft on Risk Mitigation Accounting on 3 December 2025 and invited stakeholders to provide feedback on the proposed requirements. To support the development of a robust, evidence-based comment letter, the banking industry decided to perform a field test of the RMA requirements. The deadline for submitting the comment letter is aligned with the IASB's fieldwork submission deadline, with both submissions due by 30 November 2026.

The banking industry sees some major challenges/issues regarding the restriction to allow only one risk measure per time bucket. In the requirements and illustrative examples (it looks like) only one risk measure per time bucket is allowed, cash flow measure in short(er) time buckets and fair value measure in the longer buckets. In practice both measures (can) exist in the same time bucket. This paper addresses the concerns (when only one measure per time bucket is allowed) especially in combination with the modelling of equity and introduces potential alternatives. For the banks that use/need the multiple risk measures per time bucket to represent their risk management, multiple risk measures per time bucket is an alternative to the single risk measure per time bucket and not mandatory,

Banks consider equity a non-interest-bearing source of funding and treat it similar to a non-interest-bearing liability, which provides funding at effectively 0% interest rate. On this basis modelled equity exposes an entity to interest rate risk (repricing risk), which is accepted by IRRBB/CSRBB. The risk management of the EMB is a trade-off between NII and EVE measurement.

Regulation

Applicable law and articles (accounting and/or regulatory)

In the exposure draft (ED) on Risk Mitigation Accounting (RMA), there are several paragraphs referring to the requirements on the measures the entity uses to quantify the net repricing risk exposure. The text of the relevant paragraphs is presented below.

RMA paragraphs on measures to quantify the NRRE and RMO

- ED 7.2.9 An entity shall determine the net repricing risk exposure in a manner that is consistent with how it makes risk management decisions, including with regard to:
- a) the basis on which the entity aggregates the repricing risk arising from underlying portfolios and determines the repricing time bands (based on expected repricing dates); and
 - b) the measure the entity uses to quantify the net repricing risk exposure in each repricing time band for example, a cash flow- or fair value-based measure.
- ED 7.5.2 For the purpose of applying paragraph 7.5.1, a change in an entity's risk management strategy refers to a change in how the entity manages repricing risk. Such changes might include a change to the market interest rate identified as the mitigated rate or to the measures the entity uses to quantify the net repricing risk exposure. Changes in the entity's risk management activities in response to frequent changes in the entity's exposure to repricing risk do not constitute a change in the entity's risk management strategy.
- Therefore, an entity shall not discontinue risk mitigation accounting in response to changes of this type.
- ED B7.1.3 An entity might not be able to mitigate variability in both cash flows and fair value to the same extent and might use a combination of cash flow-based and fair value-based measures to measure and manage repricing risk. For example, the entity might decide to mitigate variability in cash flows from the underlying portfolios over the short term, while mitigating variability in fair value over the long term.
- ED B7.2.13 The measure used to quantify the net repricing risk exposure in each repricing time band is required to be consistent with the measure used for risk management purposes. For example, an entity could use:
- a) a cash flow-based measure (such as a repricing maturity gap measure);
 - or**
 - b) fair value-based measure (such as a present value per basis point measure).
- ED 7.2.14 An entity is permitted to use different measures to quantify the net repricing risk exposure for different repricing time bands. However, the entity is required to apply the same measure to all exposures in the same repricing time band. For example, an entity might:

- a) use a cash flow-based measure (such as the repricing maturity gap) for repricing time bands up to 12 or 24 months; and
- b) use a fair value-based measure for all other repricing time bands over the mitigated time horizon.

ED B7.2.17 All financial assets measured at amortised cost and fair value through other comprehensive income are eligible for inclusion in underlying portfolios. However, an entity might not include in underlying portfolios all of its eligible financial assets that expose the entity to repricing risk. For example, in accordance with its risk management strategy, an entity might view cash balances (such as central bank deposits) and highly liquid variable-rate financial assets as exposing the entity to repricing risk only to the extent that these financial assets are funded by equity. To determine the exposure to repricing risk arising from these variable-rate financial assets, the entity might use internal modelling methodologies (such as replicating portfolios) as a proxy for this exposure (sometimes referred to as 'equity modelling'). If an entity uses such methodologies for risk management purposes, it must determine the net repricing risk exposure arising from the relevant underlying portfolios in the same way.

ED B7.4.1 The risk mitigation objective is specified based on the measures an entity uses to quantify the net repricing risk exposure in each repricing time band in accordance with paragraph 7.2.9. Therefore, the risk mitigation objective might be based on cash flow-based measures, fair value-based measures or a combination of both. For example, if an entity quantifies its net repricing risk exposure using a fair value-based measure such as present value per basis point, the risk mitigation objective is also based on that measure.

ED B7.5.3 The following examples illustrate changes in an entity's risk management strategy that require the entity to discontinue risk mitigation accounting. The list is not exhaustive.

Nature of the change	Analysis
An entity's risk management strategy specified a mitigated time horizon of 10 years for managing repricing risk, which aligns with the period of the entity's lending strategy.	The entity concludes there has been a change in its risk management strategy. Therefore, the entity discontinues risk mitigation accounting on a 10-year mitigated time horizon.
Due to changes in the entity's external environment, the time frame of the entity's lending strategy is shortened to three years. As a result, the entity enters into new designated derivatives to manage repricing risk over a three-year time horizon instead.	The change in the time frame of the entity's lending strategy from 10 years to three years, and the corresponding change in the mitigated time horizon, indicate a change in how the entity will mitigate repricing risk in future periods in accordance with its revised risk management strategy. Therefore, applying risk mitigation accounting consistent with the original lending strategy would no longer be consistent with the

Nature of the change	Analysis
	entity's risk management strategy and would not provide useful information.
An entity previously used a cash flow-based measure for repricing time bands of up to 24 months, in accordance with its risk management strategy. However, due to changes in the entity's prudential regulatory environment, the entity decides to use a fair value-based measure for those repricing time bands instead. Consequently, the entity changes the measures it uses to quantify repricing risk in those repricing time bands and how it manages repricing risk for those repricing time bands to ensure it achieves the new objectives.	The entity concludes there is a change in its risk management strategy. Therefore, the entity discontinues risk mitigation accounting based on a cash flow-based measure and instead applies risk mitigation accounting based on a fair value-based measure. The risk mitigation adjustment that was based on a cash flow-based measure over the short term will not provide useful information about the entity's revised risk management strategy.

- ED BC22 As part of their risk management strategy, some entities might focus on earnings in the short term and economic value in the long term.
- ED BC65 The IASB observed that net repricing risk exposure can be measured using various methods, depending on an entity's risk management strategy. Some risk measures focus on cash flow variability (for example, maturity gap analysis), whereas others focus on fair value variability (for example, present value of one basis point or PV01). The IASB decided to require an entity to determine the net repricing risk exposure using the measures the entity uses to quantify repricing risk as part of its risk management strategy. In the IASB's view, requiring entities to use the same measure they use to undertake risk management activities would be consistent with its objective to better reflect in the financial statements how entities manage repricing risk.
- ED IE All examples show either a cash flow based or fair value based measure in a certain time bucket, e.g:
- ED IE184 ... Entity E's risk management strategy specifies that the entity uses cash-flow-based measures to stabilise its net interest income over the mitigated time horizon....
- ED IE189 Because an entity's own equity is not eligible to be included in its underlying portfolios, Entity E does not include the CU70 million of equity in its underlying portfolios. However, [paragraph B7.2.17 of IFRS 9] does permit an entity to use internal equity modelling as a proxy in determining the amount of variable-rate financial instruments to include in its underlying portfolios for the purposes of calculating its net repricing risk exposure.

- ED IE190 Based on its internal modelling, Entity E includes a CU40 million nominal amount of central bank deposits in the repricing time band for 20X1 and a CU30 million nominal amount of central bank deposits in the repricing time bands for 20X2 and 20X3.
- ED IE233 To date, Entity K has managed its repricing risk using a cash flow-based measure. However, changes in the market in which Entity K operated over the past 12 months led to the entity's management deciding to manage repricing risk using a fair value-based measure going forward.
- ED IE234 The change in the measure Entity K uses to determine which risk management activities to undertake, and when, is a change in how Entity K manages its repricing risk. Entity K is therefore required by [paragraph 7.5.1 of IFRS 9] to stop applying risk mitigation accounting prospectively from the end of 20X1.

Proposed treatment

Restriction to use a combination of cash flow and fair value-based measure within the same time bucket

All the RMA requirements in, including the illustrative examples (in chapter 2) seem to require that there can only be one risk measure, cash flow or fair value (PV01) based measure per time bucket. This looks to contradict with BC65, which requires an entity to determine the net repricing risk exposure using the measures the entity uses to quantify repricing risk as part of its risk management strategy. It is common practice that both cash flow and fair value measures are used to measure risk in the same time bucket. This is proved by the regulatory requirement to report supervisory outlier test figures based on EVE (PV based) as well as NII.

The fixed net repricing risk exposures expose banks to EVE and floating net exposures expose banks to NII risk. The Equity Model Book (EMB) is used to fund assets. The hedges regarding the EMB are a trade-off between NII and EVE. In the first place the receiver swaps stabilize NII / reduce NII volatility as these swap floating interest to fixed interest cash flows. However, these derivatives expose/redistribute EVE sensitivity depending on the /duration of investment profile of the EMB. The EVE in a rate down scenario improves (more profit) and in a rates up scenario is worse (more loss), while stabilizing the NII.

So especially regarding managing interest rate risk of the EMB, it is common to use a combination of an EVE and NII measure.

If an entity uses 2 measures in the same / in all time buckets, this should be allowed in the RMA standard (in line with (BC64), should be explicitly stated that this is allowed. This could be done by changing the text and including an example in the illustrative examples in which both measures exist in the same time buckets.

Additionally, B7.5.3 states that a change in the time horizon of a measurement or a change from a cash flow to a fair value measure of vice versa should result in a discontinuation of RMA. It is also common practice to change the profile/duration of the EMB, in both time horizon (shortening or extending time horizon) or profile, replicating profile (rolling profile, more or less notional in a specific time bucket). These changes should not result in a discontinuation of RMA, when that is part of the risk management strategy/objective.

A change in time horizon of an interest measure, like shortening or extending the duration of the EMB NII measure should not result in a discontinuation of RMA.

Examples

The risk management strategy of an entity is to hedge the net PV01 profile of the risk bearing assets and liabilities, within the accepted risk limits (per time bucket), using payer and receiver swaps.

Additionally, after swapping all the net exposure to floating within the limits, the risk management strategy is to stabilize (and optimize) the NII, based on the equity model book (EMB) (and is determined by the notional mismatch of all risk bearing assets and liabilities (fixed and floating). For the EMB primarily a cash flow-based measure as described in RMA is used, to stabilize NII, however as stated above the hedging derivatives executed regarding the EMB also impact the EVE (in the SOT).

Consider an entity that manages interest rate risk over a 5-year rolling time horizon with 1 year time buckets. The entity has only fixed assets funded with fixed liabilities and equity. The entity uses a PV01 measure to manage the interest rate risk of all the interest-bearing (fixed and floating) assets and liabilities on the balance sheet and hedges all net exposures (PV01) for 100% in all time buckets. Additionally, the entity optimizes NII for 5 years, based on the desired investment profile of the equity model book using a cash flow-based measure over a 5-year time horizon with a certain investment profile. The equity model book is the notional mismatch between all the interest rate risk bearing (floating and fixed hedged to floating) assets and liabilities.

In practice the fixed exposures in the different banking books and the Equity Model Book trade internal derivatives with an 'execution book' to hedge their respective positions and this execution book trades these internal derivatives to external parties, where internal derivatives can/will be combined/netted within tight limits This example is worked out in different alternatives below.

Simple Example

Example 1: Cash flow and fair value measures in the same/all bucket(s) – 5-year rolling investment EMB

In below example the EMB 'investment profile' is a 5-year rolling profile for 100% of the notional mismatch.

In our opinion, it should be allowed to construct all the BD in line with the DD:

PV01 risk measure (fixed net exposure)

- $BD = DD$ and there are no over-hedges for PVO1 in any time bucket.

Cash flow/NII measure (EMB)

- Not more than 100 % of the floating assets (incl fixed assets hedged to floating) funded with equity (notional mismatch) is hedged with receiver swaps.
- The 5 year rolling EMB profile is a receiver profile to stabilize NII to a desired investment strategy. In all time buckets interest is stabilized from floating receive to receive fixed over the 5 year time horizon.

However, this is under the assumption, condition that it is allowed under RMA to have both a cash flow and fair value measure in the same time bucket.

Example 100% hedge NRRE PV01 & EMB 5 year rolling

Notional

Asset					200,000
Liability					-150,000
Notional mismatch					

PV01 profile

	1	2	3	4	5
Asset					-100
Liability				60	
NRRE	0	0	0	60	-100
DD NRRE (PV01)	0	0	0	-60	100
BD NRRE (PV01)	0	0	0	60	-100
Investment profile EMB	10,000	10,000	10,000	10,000	10,000
PV01 EMB	1	2	3	4	5
DD EMB (NII/notional mismatch)	1	2	3	4	5
BD EMB (PV01)	-1	-2	-3	-4	-5
Cumulative NRRE	-40	-40	-40	-40	-100
Cumulative DD NRRE	40	40	40	40	100
Cumulative BD NRRE	-40	-40	-40	-40	-100
Cumulative investment profile	50,000	40,000	30,000	20,000	10,000
Cumulative BD NII	-15	-14	-12	-9	-5
Test BD over hedge NRRE	0	0	0	0	0
Test BD EMB over hedge (< notional mismatch)	TRUE	TRUE	TRUE	TRUE	TRUE
Test BD receiver profile (<=0)	TRUE	TRUE	TRUE	TRUE	TRUE

Example 2: Cash flow and fair value measures in the same/all bucket(s) – Alternative EMB investment profile

Let's consider the same example, however an entity decided to have a EMB profile 10k in first 3 years, 21k, in 4-year and -1k in 5-year.

In this example in the 5-year bucket there is no receiver swap executed and this is not a swap to hedge floating receive interest and would not qualify for constructing a payer BD in the 5-year bucket.

In the 4-year bucket constructing a 20k receiver and 10k receiver in buckets 1 – 3, would be in line with the risk management strategy.

Example 100% hedge NRRE PV01 & EMB 4 year receiver and 5 year payer

Notional						Total
Asset					200,000	200,000
Liability					-150,000	-150,000
Notional mismatch						50,000
PV01 profile						
	1	2	3	4	5	Total
Asset					-100	-100
Liability				60		60
NRRE	0	0	0	60	-100	-40
DD NRRE (PVO1)	0	0	0	-60	100	40
BD NRRE (PVO1)	0	0	0	60	-100	-40
Investment profile EMB	10,000	10,000	10,000	21,000	-1,000	50,000
PVO1 EMB	1	2	3	8.4	-0.5	13.9
DD EMB (NII/notional mismatch)	1	2	3	8.4	-0.5	13.9
BD EMB (PVO1)	-1	-2	-3	-8.4	0.5	-13.9
Cumulative NRRE	-40	-40	-40	-40	-100	
Cumulative DD NRRE	40	40	40	40	100	
Cumulative BD NRRE	-40	-40	-40	-40	-100	
Cumulative investment profile	50,000	40,000	30,000	20,000	-1,000	
Cumulative BD NII	-13.9	-12.9	-10.9	-7.9	0.5	
Test BD over hedge NRRE	0	0	0	0	0	
Test BD EMB over hedge (< notional mismatch)	TRUE	TRUE	TRUE	TRUE	TRUE	
Test BD receiver profile (<=0)	TRUE	TRUE	TRUE	TRUE	FALSE	

In fact, if the investment profile is cumulative below the total notional mismatch and a receiver profile, we are of the opinion that constructing BD should be allowed as it is in line with the risk management strategy. This includes changing the investment horizon, for example changing the horizon from 5 to 4 (or vice versa). This should not result in a discontinuation on the RMA model.

If the investment strategy is a different profile that fits the notional mismatch and is a cumulative receiver profile, a BD can be constructed, like in the example below:

Example 100% hedge NRRE PV01 & EMB 5 year rolling

Notional						
Asset					200,000	200,000
Liability					-150,000	-150,000
Notional mismatch						50,000
PV01 profile						
	1	2	3	4	5	Total
Asset					-100	-100
Liability				60		60
NRRE	0	0	0	60	-100	-40
DD NRRE (PVO1)	0	0	0	-60	100	40
BD NRRE (PVO1)	0	0	0	60	-100	-40
Investment profile EMB	0	10,000	20,000	0	20,000	50,000
PVO1 EMB	0	2	6	0	10	18
DD EMB (NII/notional mismatch)	0	2	6	0	10	18
BD EMB (PVO1)	0	-2	-6	0	-10	-18
Cumulative NRRE	-40	-40	-40	-40	-100	
Cumulative DD NRRE	40	40	40	40	100	
Cumulative BD NRRE	-40	-40	-40	-40	-100	
Cumulative investment profile	50,000	50,000	40,000	20,000	20,000	
Cumulative BD NII	-18	-18	-16	-10	-10	
Test BD over hedge NRRE	0	0	0	0	0	
Test BD EMB over hedge (< notional mismatch)	TRUE	TRUE	TRUE	TRUE	TRUE	
Test BD receiver profile (<=0)	TRUE	TRUE	TRUE	TRUE	TRUE	

Interaction of fair value and cash flow measure

In practice both measures are / can be managed simultaneously and the EMB DD and PV01 DD are executed externally in the same (execution) book. Let's consider for example, one executed 105 (instead of 100) payer swap in the 5-year bucket (over hedge of 5) and a 5-year rolling EMB investment profile (10k in each bucket).

The 'over-hedge' payer swap in the 5 year offsets the 5-year receiver swap executed for the EMB. Constructing a 5-year payer BD for PV01 of 100 and not constructing the 5-year receiver swap, results in the same BD risk profile as the DD.

In practice it is difficult to identify if the DD payer swap is executed to hedge the PV01 in the 5-year bucket or close the 5-year EMB position, change duration/investment profile of the EMB. Also, it does not matter as for risk management as long as the risk position of the EMB and PV01 is within the limits, there is no distinction between under and over hedging, only for RMA.

Example 100% hedge NRRE PV01 & EMB 5 year rolling

Notional						Total
Asset					200,000	200,000
Liability					-150,000	-150,000
Notional mismatch						50,000
PV01 profile						
	1	2	3	4	5	Total
Asset					-100	-100
Liability				60		60
NRRE	0	0	0	60	-100	-40
DD NRRE (PVO1)	0	0	0	-60	105	45
BD NRRE (PVO1)	0	0	0	60	-100	-40
Investment profile EMB	10,000	10,000	10,000	10,000	10,000	50,000
PV01 EMB	1	2	3	4	5	15
DD EMB (NII/notional mismatch)	1	2	3	4	5	15
BD EMB (PVO1)	-1	-2	-3	-4	-5	-15
Cumulative NRRE	-40	-40	-40	-40	-100	
Cumulative DD NRRE	45	45	45	45	105	
Cumulative BD NRRE	-40	-40	-40	-40	-100	
Cumulative investment profile	50,000	40,000	30,000	20,000	10,000	
Cumulative BD NII	-10	-9	-7	-4	0	
Test BD over hedge NRRE	0	0	0	0	0	
Test BD EMB over hedge (< notional mismatch)	TRUE	TRUE	TRUE	TRUE	TRUE	
Test BD receiver profile (<=0)	TRUE	TRUE	TRUE	TRUE	TRUE	

SOT and interaction NII & EVE

As mentioned above, the primary objective of the EMB to stabilize NII, impacts the EVE measure as well. If the strategy is to stabilize NII for a longer period/increase duration, the more the EVE will be impacted. There can be occasions that a payer swap is/needs to be executed in a bucket that switches the cumulative profile to a payer instead of receiver profile) to lower the SOT EVE impact, prevent to become an outlier (EVE > 15% CET1). In this situation it would be contradictory that no BD can be created to reduce the EVE risk and mitigate related volatility to reduce the EVE risk, prevent to become an outlier.

Let's consider the example above where there is an additional payer swap executed in the 5-year bucket, but now for 10.000 instead of 1.000. The payer swap in the 5-year bucket does not result in a cumulative receiver profile in the 5-year bucket.

However, if we look at the SOT:

- NII is fixed/stabilized over all 5 years (although pay interest in 5-year).
- EVE is reduced (by 1000; from) by the payer swap in the parallel up and down scenario and (slightly) increased in the steepening and flattening scenario.

From an interest rate (SOT EVE) perspective this trade is limiting the EVE risk and the total notional of the EMB is not exceeded. In this case one could argue that this 5-year payer swap is also a derivative that mitigates/reduces the (SOT) EVE and stabilizes NII. This is because of the interaction/trade-off between NII and EVE measurements. Not allowing to create a BD would increase accounting volatility not aligned with the mitigated (SOT EVE) risk in actual risk management.

Example 100% hedge NRRE PVO1 & EMB 4 year receiver and 5 year payer and SOT EVE impact

Notional						
Asset					200,000	200,000
Liability					-150,000	-150,000
Notional mismatch						50,000
PVO1 profile						
	1	2	3	4	5	Total
Asset					-100	-100
Liability				60		60
NRRE	0	0	0	60	-100	-40
DD NRRE (PVO1)	0	0	0	-60	100	40
BD NRRE (PVO1)	0	0	0	60	-100	-40
Investment profile EMB (and SOT EVE hedge)	10,000	10,000	10,000	21,000	-10,000	41,000
PVO1 EMB	1	2	3	8.4	-5	9.4
DD EMB (NII/notional mismatch)	1	2	3	8.4	-5	9.4
BD NRRE (PVO1)	-1	-2	-3	-8.4		-14.4
Cumulative NRRE	-40	-40	-40	-40	-100	
Cumulative DD NRRE	40	40	40	40	100	
Cumulative BD NRRE	-40	-40	-40	-40	-100	
Cumulative investment profile	41,000	31,000	21,000	11,000	-10,000	
Cumulative BD NII	-14.4	-13.4	-11.4	-8.4	0	
Test BD over hedge NRRE	0	0	0	0	0	
Test BD EMB over hedge (< notional mismatch)	TRUE	TRUE	TRUE	TRUE	TRUE	
Test BD receiver profile (<=0)	TRUE	TRUE	TRUE	TRUE	TRUE	
Parallel up scenario	200	200	200	200	200	
EMB EVE (DD)	200	400	600	1,680	-1,000	1,880
EMB EVE (BD)	-200	-400	-600	-1,680	0	-2,880
Parallel down	-200	-200	-200	-200	-200	
EMB EVE (DD)	-200	-400	-600	-1,680	1,000	-1,880
EMB EVE (BD)	200	400	600	1,680	0	2,880
Steepening	-200	-100	0	100	200	
EMB EVE (DD)	-200	-200	0	840	-1,000	-560
EMB EVE (BD)	200	200	0	-840	0	-440
Flattening	200	100	0	-100	-200	
EMB EVE (DD)	200	200	0	-840	1,000	560
EMB EVE (BD)	-200	-200	0	840	0	440

Scaled Example

N/A

Operability concerns

When an entity uses more than one risk measure per time bucket and RMA allows only one, the RMA and actual risk management are not aligned and either risk management needs to be adjusted (change risk measure) to fit within RMA or RMA implementation needs to include some proxies to be able to align with actual risk management.

Conclusion

The RMA Exposure Draft appropriately anchors the determination of the NRRE and the Risk Management Objective in an entity's risk management strategy and acknowledges that entities may use cash flow-based and fair value based measures. However, the drafting and illustrative examples appear to imply that only one risk measure can be applied within a given repricing time band. This restriction would not be aligned with common banking practice and supervisory expectations, where NII- and EVE-based metrics are often managed concurrently for the same time buckets. For the/some banks that use/need the multiple risk measures per time bucket to represent their risk management, multiple risk measures per time bucket is an alternative to the single risk measure per time bucket and not mandatory. This is particularly relevant for the Equity Model Book (EMB), where hedging decisions are inherently a trade-off between stabilizing NII and managing EVE sensitivity, and where changes in investment profile or duration can be part of an ongoing risk management strategy rather than a change in that strategy that should not result in a discontinuation of RMA. We note that modelled equity should also be eligible for treatment as a proxy fixed-rate item within an EVE/PV01 as described in paper on Equity model Book.

Additionally, we note that besides NII and EVE, there can be additional risk measures per time bucket used by some banks, such as IR Vega, which is discussed in the paper non-linear risk.

Appendix/Supporting documentation

N/A

WG6 I INTERACTION IFRS AND RMA

Information sheet

		<i>Title</i>	WG5 I RISK MEASUREMENT PER TIME BUCKET
		<i>Paper writer</i>	EBF Hedge Accounting Workgroup
(15) (16)	<i>Interpretation/clarification</i>	<i>Type of paper</i>	Interpretation/clarification & Fatal flaw: request/demand for change
	<i>Fatal flaw: request/demand for change</i>		
		<i>Adjustment required for RMA?</i>	Yes
		<i>Conceptual issue?</i>	Yes
		<i>RAG⁸</i>	

⁸ Please refer to the latest version of the document "Definition of Traffic Light Colouring/System" for the corresponding definition of the traffic light system applied

Contents

Introduction	119
Background	119
Regulation.....	120
Applicable law and articles (accounting and/or regulatory).....	120
Instruments measured at fair value through profit or loss (FVTPL)	120
Revoking the fair value option	121
Instruments measured at fair value through OCI	121
Hedged exposures	122
Multi-currency NRRE	124
Interest rate derivatives	125
Net written options	126
Cross-currency derivatives.....	126
Illustrative examples – Example 21.....	126
ESMA 's reporting guidelines for EMIR	127
BCBS IRRBB	127
Proposed treatment.....	129
Eligible instruments and inclusion in the RMA model	129
Instruments at FVPL	130
Instruments measured at FVOCI	131
Hedged exposures	132
Multi-currency NRRE	133
Interest rate derivatives (including cross-currency swaps).....	136
Interest rate derivatives	136
Cross-currency swaps	136
Net written options	137
Examples	139
FX, cross-currency derivatives not in IFRS9 HA (hedged exposures)	139
Example 1 Euro Fixed asset funded EUR, USD & EMB	139
Example 2 EUR, USD funded with EURm USD and EMB.....	140
Multi-currency portfolios within the NRRE	140
Use of multiple derivatives rather than a single synthetic hedge	141
Independent hedging and differentiated hedge ratios	141
Implications for NRRE design under the RMA model	142
Issue observed.....	143
Recommendation to the IASB.....	143

Operability concerns	144
Conclusion.....	145
Appendix/Supporting documentation	146

Introduction

Background

The IASB published the Exposure Draft on Risk Mitigation Accounting on 3 December 2025 and invited stakeholders to provide feedback on the proposed requirements. To support the development of a robust, evidence-based comment letter, the banking industry decided to perform a field test of the RMA requirements. The deadline for submitting the comment letter is aligned with the IASB's fieldwork submission deadline, with both submissions due by 30 November 2026.

The EBF sees some major challenges/issues regarding limitations to the faithful representation of interest rate risk management arising from the interaction between the proposed RMA model and existing IFRS hedge accounting frameworks. These challenges arise across several interrelated areas:

- Eligible instruments and inclusion in the RMA model
- Instruments measured at fair value through profit or loss
- Instruments measured at fair value through other comprehensive income
- Hedged exposures
- Multi-currency NRRE
- Interest rate derivatives (including Cross-currency swaps)
- Net written options

Taken together, these issues suggest that, without further clarification and flexibility, the proposed RMA model may introduce structural misalignment with IFRS-compliant risk management practices and lead to accounting outcomes that do not faithfully reflect how interest rate risk is managed in practice.

Regulation

Applicable law and articles (accounting and/or regulatory)

Instruments measured at fair value through profit or loss (FVTPL)

- ED 7.2.1 For the purposes of applying risk mitigation accounting, an entity aggregates the repricing risk arising from underlying portfolios. Financial instruments are eligible to be included in the underlying portfolios only if they are:
- a) financial assets classified as subsequently measured at amortised cost or fair value through other comprehensive income (in accordance with paragraphs 4.1.2 or 4.1.2A);
 - b) financial liabilities classified as subsequently measured at amortised cost (in accordance with paragraph 4.2.1); or
 - c) future transactions that could result in the recognition or derecognition of financial instruments specified in (a) or (b), in accordance with paragraph 7.2.4.
- ED BC47 The IASB also considered whether financial assets or financial liabilities measured at fair value through profit or loss should be eligible for inclusion in underlying portfolios for the purpose of determining the net repricing risk exposure. Some financial instruments that are measured at fair value through profit or loss could affect an entity's exposure to repricing risk like those measured at amortised cost—for example, financial assets that do not have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.
- ED BC48 However, the IASB noted that the fair value gains or losses on such financial instruments are recognised in profit or loss in the same period that gains or losses on risk mitigating derivatives would be recognised. There would therefore be no accounting mismatch in profit or loss to which risk mitigation accounting could be applied. Therefore, the IASB decided that financial instruments measured at fair value through profit or loss are not eligible for inclusion in underlying portfolios.
- ED BC142 However, the IASB noted that for the entities described in paragraph BC140(b), the optional designation of financial assets or financial liabilities as measured at fair value through profit or loss is available only at initial recognition of the financial instruments and is irrevocable. Therefore, without a transition relief, such financial instruments would not be eligible for inclusion in underlying portfolios for the purpose of determining the net repricing risk exposure.
- ED BC143 In the IASB's view, risk mitigation accounting could provide such entities with a way to more faithfully reflect the effects of their repricing risk management activities. The IASB concluded that it would not be appropriate to prevent these financial assets or financial liabilities from being included in the underlying portfolios for the purpose of determining the net repricing risk exposure.

ED BC144 Therefore, the IASB proposes to permit entities to revoke their previous designation of financial assets or financial liabilities as measured at fair value through profit or loss for the purpose of applying risk mitigation accounting.

Revoking the fair value option

ED C2.59 An entity is permitted to revoke its previous designation of financial assets or financial liabilities as measured at fair value through profit or loss if those financial assets or financial liabilities will be included in underlying portfolios for the purposes of applying risk mitigation accounting.

ED C2.60 An entity that applies paragraph C2.59 shall revoke its designation of any financial assets or financial liabilities as measured at fair value through profit or loss at the beginning of the annual reporting period in which the entity first applies risk mitigation accounting. The entity shall use the fair value of such financial instruments at that date as the gross carrying amount of the financial assets or the amortised cost of the financial liabilities, as well as the basis for calculating the instruments' effective interest rate. For the purposes of applying the requirements in Section 5.5 to such financial assets, an entity shall use this date as the date of initial recognition.

Instruments measured at fair value through OCI

ED BC44 Stakeholders have also said that as part of an entity's risk management strategy, financial assets measured at fair value through other comprehensive income are often considered together with those measured at amortised cost when managing repricing risk. This approach reflects the fact that both types of financial assets affect the entity's exposure to repricing risk, and they have similar profiles in profit or loss.

ED BC45 The IASB acknowledged that although these financial assets and the related derivatives are measured at fair value in the statement of financial position, entities applying the current measurement requirements would still have accounting mismatches in the statement of profit or loss. The accounting mismatches arise because fair value gains or losses on the financial assets are recognised in other comprehensive income (apart from the interest amount recognised in profit or loss using the effective interest method set out in paragraph 5.7.10 of IFRS 9), whereas the fair value gains or losses on the derivatives are recognised in profit or loss.

ED BC46 Consequently, the IASB decided that financial assets measured at fair value through other comprehensive income are eligible for inclusion in underlying portfolios for the purpose of determining the net repricing risk exposure. In reaching this decision, the IASB noted that:

- a) risk mitigation accounting does not affect the measurement of the underlying portfolios. Therefore, the risk mitigation adjustment would not lead to potential double-counting of the fair value changes of the underlying portfolios.
- b) the application of risk mitigation accounting would eliminate the accounting mismatches in profit or loss in much the same way as it does when applied to financial instruments measured at amortised cost. However, a mismatch in other comprehensive income might remain.

Hedged exposures

- ED 7.2.2 An entity shall apply risk mitigation accounting only to its exposure to repricing risk that is not otherwise mitigated. In other words, an entity cannot mitigate the same repricing risk more than once. However, financial instruments in underlying portfolios could be designated in a hedging relationship for risks other than repricing risk, in accordance with Chapter 6 of this Standard. A hedged exposure that affects an entity's exposure to repricing risk is eligible for inclusion in the underlying portfolios (see paragraph B7.2.6–B7.2.8).
- ED B7.1.8 An entity could manage repricing risk based on one or more mitigated rates. If the entity manages repricing risk using more than one mitigated rate, it applies risk mitigation accounting separately to each subset of underlying portfolios for which it manages repricing risk based on the same mitigated rate. For example, an entity might specify the benchmark interest rate used for internal transfer pricing purposes as the mitigated rate at a reporting entity level. Alternatively, an entity might manage repricing risk based on different currencies and specify a mitigated rate for each of the main currencies in which the entity's financial instruments are denominated.
- ED B7.2.6 Financial instruments in underlying portfolios might expose an entity to risks other than repricing risk. An entity applies risk mitigation accounting only to repricing risk. However, an entity is permitted to apply the hedge accounting requirements in Chapter 6 to hedge financial instruments included in underlying portfolios for risks other than repricing risk.
- ED B7.2.7 In some cases, financial instruments that are eligible to be included in the underlying portfolios are designated as hedged items (in accordance with Chapter 6) and an entity's exposure to repricing risk is affected by the hedged exposure. In such cases, an entity includes that hedged exposure in the underlying portfolios in its entirety. For example, an entity might have fixed rate financial liabilities denominated in a foreign currency that the entity might hedge using cross-currency interest rate swaps. If so, the entity might designate the financial liabilities in a hedging relationship to hedge both interest rate risk and foreign currency risk. This hedged exposure would effectively transform the fixed-rate foreign currency financial liabilities into variable-rate functional currency financial liabilities. Consequently, the exposure to repricing risk arising from this hedged exposure would be similar to that of the entity's other variable-rate financial instruments in its functional currency. In this case, the hedged exposure would be eligible for inclusion in underlying portfolios.
- ED B7.2.8 A hedged exposure is eligible for inclusion in the underlying portfolios until the relevant hedging relationship no longer meets the qualifying criteria for hedge accounting set out in paragraph 6.4.1.
- ED BC56 During its deliberations, the IASB considered whether an entity could include financial instruments already designated as in a qualifying hedging relationship for a risk other than repricing risk when determining the net repricing risk exposure. The IASB also considered whether the underlying portfolios should include only financial assets and financial liabilities denominated in the same currency.

- ED BC57 The IASB noted that underlying portfolios denominated in different currencies typically have different risk characteristics as a result of being linked to different economic environments. Therefore, if the underlying portfolios include financial instruments denominated in different currencies, foreign currency risk could be introduced into the portfolios alongside repricing risk.
- ED BC58 Stakeholders explained that they commonly raise funding or originate loans in currencies other than their functional currencies due to lack of market liquidity in their functional currencies. However, for risk management purposes, these financial assets or financial liabilities denominated in foreign currencies are not necessarily assessed separately when managing repricing risk. These stakeholders were therefore concerned that if the IASB were to require allocation of financial instruments to different underlying portfolios based purely on the currency the instrument is denominated in, for many financial instruments this allocation would be arbitrary and would not faithfully represent how an entity manages repricing risk.
- ED BC61 The IASB noted that paragraph 6.3.4 of IFRS 9 permits an entity to designate as hedged items aggregated exposures that are a combination of an exposure and a derivative. Although derivatives in isolation are not eligible for inclusion in the underlying portfolios, the IASB acknowledged that the combination of a derivative with a financial asset or a financial liability could affect an entity's exposure to repricing risk. The IASB therefore decided that some hedged exposures are eligible for inclusion in the underlying portfolios. To include a hedged exposure, an entity would be required to designate a hedging relationship in accordance with Chapter 6 of IFRS 9.
- ED BC62 The IASB decided that a hedged exposure is eligible for inclusion in the underlying portfolios if:
- a) the hedged items themselves are financial instruments that are eligible for inclusion in the underlying portfolios.
 - b) the combined effect of the hedged item and hedging instrument changes an entity's exposure to repricing risk. In other words, the effects of the hedging relationship in its entirety must be included in the underlying portfolios.
- ED BC63 The IASB is of the view that requiring an entity to designate a hedging relationship would minimise the risk of double-counting between different risk exposures because applying risk mitigation accounting would not change how the entity measures financial instruments included in the underlying portfolios.
- ED BC70 Entities mitigating their exposure to repricing risk arising from underlying portfolios often rely on derivatives to mitigate their exposure to variability in cash flow and fair value attributable to repricing risk. The risk mitigation accounting model is specifically developed for repricing risk, which is a form of interest rate risk; therefore, the IASB decided that designated derivatives would include only interest rate derivatives.
- 9.6.3.4 An aggregated exposure that is a combination of an exposure that could qualify as a hedged item in accordance with paragraph 6.3.1 and a derivative may be designated as a hedged item (see paragraphs B6.3.3–

B6.3.4). This includes a forecast transaction of an aggregated exposure (i.e. uncommitted but anticipated future transactions that would give rise to an exposure and a derivative) if that aggregated exposure is highly probable and, once it has occurred and is therefore no longer forecast, is eligible as a hedged item.

- 9 BC6.168 The IASB also clarified two other aspects that had been raised by some respondents:
- a) that the notion of an aggregated exposure includes a highly probable forecast transaction of an aggregated exposure if that aggregated exposure, once it has occurred, is eligible as a hedged item;
 - b) and how to apply the general requirements of designating a derivative as the hedging instrument in the context of aggregated exposures. The IASB noted that the way in which a derivative is included in the hedged item that is an aggregated exposure must be consistent with the designation of that derivative as the hedging instrument at the level of the aggregated exposure (i.e. at the level of the first level relationship—if applicable, i.e. if hedge accounting is applied at that level). If the derivative is not designated as the hedging instrument at the level of the aggregated exposure, it must be designated in its entirety or as a proportion of it. The IASB noted that, consistent with the general requirements of the hedge accounting model, this also ensures that including a derivative in an aggregated exposure does not allow splitting a derivative by risk, by parts of its term or by cash flows.

Multi-currency NRRE

- ED B7.1.8 An entity could manage repricing risk based on one or more mitigated rates. If the entity manages repricing risk using more than one mitigated rate, it applies risk mitigation accounting separately to each subset of underlying portfolios for which it manages repricing risk based on the same mitigated rate. For example, an entity might specify the benchmark interest rate used for internal transfer pricing purposes as the mitigated rate at a reporting entity level. Alternatively, an entity might manage repricing risk based on different currencies and specify a mitigated rate for each of the main currencies in which the entity's financial instruments are denominated.
- ED BC56 During its deliberations, the IASB considered whether an entity could include financial instruments already designated as in a qualifying hedging relationship for a risk other than repricing risk when determining the net repricing risk exposure. The IASB also considered whether the underlying portfolios should include only financial assets and financial liabilities denominated in the same currency.
- ED BC57 The IASB noted that underlying portfolios denominated in different currencies typically have different risk characteristics as a result of being linked to different economic environments. Therefore, if the underlying portfolios include financial instruments denominated in different currencies, foreign currency risk could be introduced into the portfolios alongside repricing risk.
- ED BC58 Stakeholders explained that they commonly raise funding or originate loans in currencies other than their functional currencies due to lack of market liquidity in their functional currencies. However, for risk management

purposes, these financial assets or financial liabilities denominated in foreign currencies are not necessarily assessed separately when managing repricing risk. These stakeholders were therefore concerned that if the IASB were to require allocation of financial instruments to different underlying portfolios based purely on the currency the instrument is denominated in, for many financial instruments this allocation would be arbitrary and would not faithfully represent how an entity manages repricing risk.

ED BC59 The IASB noted that its objective in developing risk mitigation accounting was to reflect in the financial statements the economic effect of how entities manage repricing risk. For this reason, the IASB decided instead to permit an entity to allocate financial instruments to the underlying portfolios and apply risk mitigation accounting based, as closely as possible, on how the entity manages repricing risk.

ED BC60 An entity might have financial instruments that expose it to more than one risk, for example, interest rate risk and foreign currency risk (see paragraph BC6.160 of the Basis for Conclusions on IFRS 9). However, the entity might have a different risk management strategy for each risk. For example, the entity might manage the currency risk on an individual-instrument basis with a cross-currency swap and then consider the resulting functional currency position on a net basis with other financial instruments when managing repricing risk. Similarly, an entity might decide to hedge the cash flow or fair value variability attributable to interest rate risk on an individual instrument basis and consider the combined effect of the hedged item and hedging instrument when determining its exposure to repricing risk on a net basis.

ED BC61 The IASB noted that paragraph 6.3.4 of IFRS 9 permits an entity to designate as hedged items aggregated exposures that are a combination of an exposure and a derivative. Although derivatives in isolation are not eligible for inclusion in the underlying portfolios, the IASB acknowledged that the combination of a derivative with a financial asset or a financial liability could affect an entity's exposure to repricing risk. The IASB therefore decided that some hedged exposures are eligible for inclusion in the underlying portfolios. To include a hedged exposure, an entity would be required to designate a hedging relationship in accordance with Chapter 6 of IFRS 9.

ED BC62 The IASB decided that a hedged exposure is eligible for inclusion in the underlying portfolios if: (a) (b) the hedged items themselves are financial instruments that are eligible for inclusion in the underlying portfolios. The combined effect of the hedged item and hedging instrument changes an entity's exposure to repricing risk. In other words, the effects of the hedging relationship in its entirety must be included in the underlying portfolios.

Interest rate derivatives

ED 7.3.1 For the purposes of applying risk mitigation accounting, designated derivatives are interest rate derivatives that are used to manage an entity's repricing risk.

ED BC71 The IASB acknowledged that simple interest rate swaps are the most common type of interest rate derivative used for managing repricing risk. However, the Exposure Draft proposes that any interest rate derivatives

could be designated derivatives for the purpose of applying risk mitigation accounting, including basis swaps, forward-starting swaps, forward rate agreements and interest rate futures as well as options and swaptions.

Net written options

- ED 7.3.2 A derivative is not eligible to be included as a designated derivative if:
- a) it is a net written option; or
 - b) its fair value changes are dominated by the effect of risks unrelated to changes in the mitigated rate, such as credit risk.
- ED 7.3.3 Despite paragraph 7.3.2(a), a net written option that offsets purchased options included as designated derivatives would be eligible to be included as a designated derivative if the combined effect is not that of a net written option.
- ED BC75 The IASB proposed a restriction on the use of written options as designated derivatives, consistent with the restriction imposed by the hedge accounting requirements in IFRS 9. This restriction is intended to ensure that the designated derivatives are used to mitigate, rather than increase, repricing risk.
- 9 B6.2.4 This Standard does not restrict the circumstances in which a derivative that is measured at fair value through profit or loss may be designated as a hedging instrument, except for some written options. A written option does not qualify as a hedging instrument unless it is designated as an offset to a purchased option, including one that is embedded in another financial instrument (for example, a written call option used to hedge a callable liability).

Cross-currency derivatives

- ED B7.2.7 In some cases, financial instruments that are eligible to be included in the underlying portfolios are designated as hedged items (in accordance with Chapter 6) and an entity's exposure to repricing risk is affected by the hedged exposure. In such cases, an entity includes that hedged exposure in the underlying portfolios in its entirety. For example, an entity might have fixed rate financial liabilities denominated in a foreign currency that the entity might hedge using cross-currency interest rate swaps. If so, the entity might designate the financial liabilities in a hedging relationship to hedge both interest rate risk and foreign currency risk. This hedged exposure would effectively transform the fixed-rate foreign currency financial liabilities into variable-rate functional currency financial liabilities. Consequently, the exposure to repricing risk arising from this hedged exposure would be similar to that of the entity's other variable-rate financial instruments in its functional currency. In this case, the hedged exposure would be eligible for inclusion in underlying portfolios.

Illustrative examples – Example 21

Fact pattern

- ED IE171 In accordance with its risk management strategy, Entity C manages repricing risk on a net basis by aggregating its exposure to repricing risk arising from specified financial assets and financial liabilities denominated

in its functional currency. Entity C concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9]. The entity chooses to apply risk mitigation accounting.

ED IE172 Although most of Entity C's business activities are denominated in its functional currency, it sometimes raises financing in a foreign currency. Because these foreign currency loans expose Entity C to both foreign currency and interest rate risks, Entity C manages these risks by using a cross-currency interest rate swap. The effect of this swap is to transform the fixed-rate liability denominated in a foreign currency into a variable-rate financial liability denominated in its functional currency.

ED IE173 Entity C includes this variable-rate financial liability denominated in its functional currency, which results from taking into account the effects of the cross-currency interest rate swap, in determining its exposure to repricing risk.

Analysis

ED IE174 To account for the effects of its risk management activities in its financial statements, Entity C applies the hedge accounting requirements in Chapter 6 of IFRS 9. Entity C designates a fair value hedging relationship with:

- a) the foreign currency financial liability as the hedged item;
- b) the cross-currency interest rate swap as the hedging instrument; and
- c) interest rate risk and foreign currency risk as the hedged risks.

ED IE175 To manage the repricing risk arising from financial assets and financial liabilities on a net basis, Entity C includes the combined effect of the hedged item and hedging instrument described in paragraph IE174 in its underlying portfolios as a hedged exposure in accordance with [paragraph 7.2.2 of IFRS 9].

ED IE176 Therefore, Entity C includes the hedged exposure in its underlying portfolios as a variable-rate liability denominated in the entity's functional currency in determining its net repricing risk exposure.

ED IE177 Although Entity C includes the hedged exposure in its underlying portfolios, applying risk mitigation accounting does not affect how Entity C recognizes and measures the hedged item and hedging instrument in accordance with Chapter 6 of IFRS 9.

ESMA's reporting guidelines for EMIR

Para 24 Cross currency swaps are contracts that contain both an interest rate factor and a currency factor. They are considered as interest rate derivatives and should be reported as such under EMIR.

BCBS IRRBB

SRP 31.1 Interest rate risk in the banking book (IRRBB) refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions. When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of a bank's assets, liabilities and off-balance sheet items and hence its economic value. Changes in interest rates also affect a bank's earnings by altering interest

rate-sensitive income and expenses, affecting its net interest income (NII). Excessive IRRBB can pose a significant threat to a bank's current capital base and/or future earnings if not managed appropriately. A more detailed description of IRRBB and its management techniques can be found in [SRP98](#).

Proposed treatment

The following topics are discussed in the following sections:

- Eligible instruments and inclusion in the RMA model (section 3.1.)
- Instruments measured at fair value through profit or loss (section 3.2.)
- Instruments measured at fair value through other comprehensive income (section 3.3.)
- Hedged exposures (section 3.4.)
- Multi-currency NRRE (section 3.5)
- Interest rate derivatives (including Cross-currency swaps) (section 3.6.)
- Net written options (section 3.7.)

Eligible instruments and inclusion in the RMA model

With regards to eligible financial instruments the two main requirements in the Exposure Draft are:

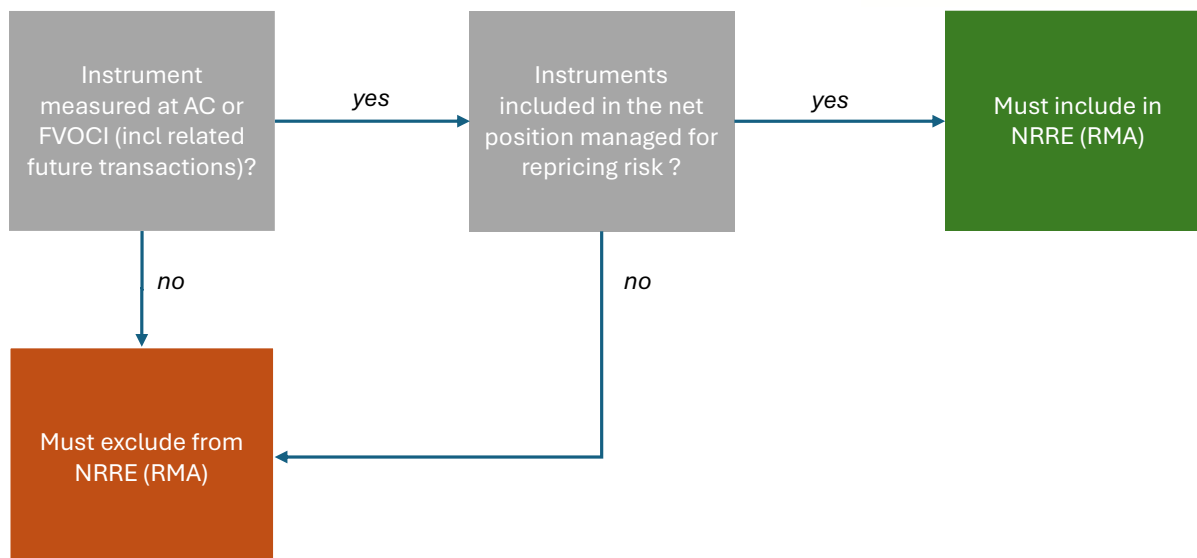
1. the requirements in para 7.2.1, saying only instruments measured at amortised cost or at fair value through OCI (or related future transactions) can be included; in the underlying portfolios; and
2. the underlying portfolios that are included in RMA shall be consistent with the financial instruments that the entity includes to manage repricing risk on a net basis (para 7.2.7).

ED 7.2.7 An entity shall determine the net repricing risk exposure from the underlying portfolio that are managed on a net basis in accordance with the entity's risk management strategy. Therefore, the underlying portfolios aggregated to determine the net repricing risk exposure shall be consistent with the financial instruments the entity aggregates to manage repricing risk on a net basis (subject to the requirements in paragraph 7.2.1).

Based on this, it is our understanding that instruments that meet these two criteria must be included in RMA and cannot be excluded, apart from a possible exception for 'equity modelling' (as outlined in para B.7.2.17).

ED B7.2.17 All financial assets measured at amortised cost and fair value through other comprehensive income are eligible for inclusion in underlying portfolios. However, an entity might not include in underlying portfolios all of its eligible financial assets that expose the entity to repricing risk. For example, in accordance with its risk management strategy, an entity might view cash balances (such as central bank deposits) and highly liquid variable-rate financial assets as exposing the entity to repricing risk only to the extent that these financial assets are funded by equity. To determine the exposure to repricing risk arising from these variable-rate financial assets, the entity might use internal modelling methodologies (such as replicating portfolios) as a proxy for this exposure (sometimes referred to as 'equity modelling'). If an entity uses such methodologies for risk management purposes, it must determine the net repricing risk exposure arising from the relevant underlying portfolios in the same way.

This also means that any instrument that an entity does not include to "manage repricing risk on a net basis" can also not be included in RMA.



In addition, it is also our understanding that any instruments that are not included in RMA can be designated in a hedging relationship under the IFRS 9 general hedge accounting model (IFRS 9 Chapter 6). Hedged exposures are discussed in section 3.4. of this document.

Finally, para B7.2.8 (below) states that once an instrument is included RMA it cannot be excluded, as long as the RMA model still meets the qualifying criteria.

ED B7.2.8 A hedged exposure is eligible for inclusion in the underlying portfolios until the relevant hedging relationship no longer meets the qualifying criteria for hedge accounting set out in paragraph 6.4.1.

No request for changes/no further clarification needed.

Instruments at FVPL

In 'Basis for Conclusions on Risk Mitigation Accounting' the IASB clarifies that financial instruments measured at fair value through profit or loss (or future transactions related to those) cannot be included in the underlying portfolios:

ED BC48 However, the IASB noted that the fair value gains or losses on such financial instruments are recognised in profit or loss in the same period that gains or losses on risk mitigating derivatives would be recognised. There would therefore be no accounting mismatch in profit or loss to which risk mitigation accounting could be applied. Therefore, the IASB decided that financial instruments measured at fair value through profit or loss are not eligible for inclusion in underlying portfolios.

Whilst we are sensitive to the argument that there is no accounting mismatch for instruments measured at fair value through profit or loss, we are concerned that excluding such instrument could have an adverse and unwanted impact on the RMA model, for example:

- Excluding items from the NRRE could result in an artificial RMA over-hedge (i.e. the risk mitigation objective exceeds the NRRE in the time band), that does not align with an entity's risk management.
- If an entity's risk limits are based on underlying portfolios that include instruments measured at FVPL, those limits may not be suitable for use in Risk Mitigation Accounting, where instruments at FVPL cannot be included in the NRRE.

The IASB proposes a (partial) solution whereby the designation of instruments measured at fair value through profit or loss may be revoked. However, this solution is not effective for financial assets that are mandatorily measured at fair value through profit or loss due to a failure of the SPPI test, for financial liabilities that include embedded derivatives that are not bifurcated, or for financial instruments that are measured at fair value through profit or loss because they are managed on that basis.

Whether fair value instruments should be permitted as part of the underlying portfolios should be assessed based on the business purpose of those instruments and on whether they form part of the entity's risk management framework. This is permitted by IFRS 9 and supported by guidance published by the main Accounting firms.

Instruments measured at FVOCI

Instruments measured at fair value through OCI (and related future transactions) are considered eligible in RMA (para 7.2.1). However, in BC45 and BC46 the IASB acknowledges that a mismatch in other comprehensive could remain when RMA is applied to instruments at FVOCI:

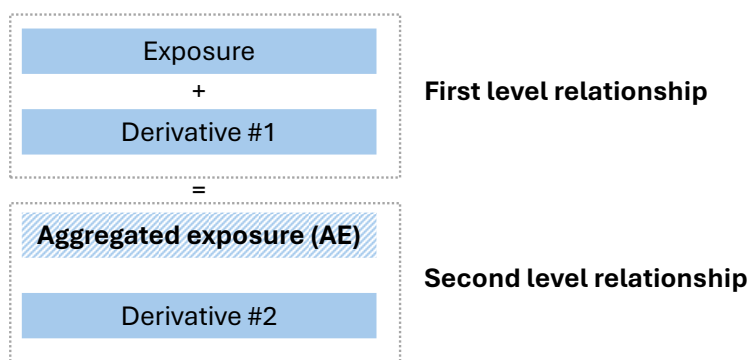
- ED BC45 The IASB acknowledged that although these financial assets and the related derivatives are measured at fair value in the statement of financial position, entities applying the current measurement requirements would still have accounting mismatches in the statement of profit or loss. The accounting mismatches arise because fair value gains or losses on the financial assets are recognised in other comprehensive income (apart from the interest amount recognised in profit or loss using the effective interest method set out in paragraph 5.7.10 of IFRS 9), whereas the fair value gains or losses on the derivatives are recognised in profit or loss.
- ED BC46 Consequently, the IASB decided that financial assets measured at fair value through other comprehensive income are eligible for inclusion in underlying portfolios for the purpose of determining the net repricing risk exposure. In reaching this decision, the IASB noted that:
- a) risk mitigation accounting does not affect the measurement of the underlying portfolios. Therefore, the risk mitigation adjustment would not lead to potential double-counting of the fair value changes of the underlying portfolios.
 - b) the application of risk mitigation accounting would eliminate the accounting mismatches in profit or loss in much the same way as it does when applied to financial instruments measured at amortised cost. However, a mismatch in other comprehensive income might remain.

We agree with the IASB's proposal to book the risk mitigation adjustment as a separate line item in the balance sheet (not being equity/OCI). However, we propose/request that the IASB should

eliminate the mismatch in other comprehensive income, for example by re-booking only the respective RMA fair value changes relating to financial assets at FVOCI in the NRRE from RMA to OCI.

Hedged exposures

IFRS 9 allows entities to designate a so-called “aggregate exposure”. An aggregated exposure is a combination of a non-derivative exposure and a derivative (“first level relationship”) that, when paired together, are designated as a single hedged item in a hedging relationship (“second level relationship”).



This concept allows for more flexible hedge accounting that better reflects the risk management practices of entities. Achieving hedge accounting for the first level relationship is not required to comply with the general hedge accounting requirements for the second level relationship (i.e. the hedging relationship in which the aggregated exposure is the hedged item).

In paragraph 7.2.2 of the RMA Exposure Draft the IASB introduces a similar concept in RMA: “hedged exposures”.

ED 7.2.2 An entity shall apply risk mitigation accounting only to its exposure to repricing risk that is not otherwise mitigated. In other words, an entity cannot mitigate the same repricing risk more than once. However, financial instruments in underlying portfolios could be designated in a hedging relationship for risks other than repricing risk, in accordance with Chapter 6 of this Standard. A hedged exposure that affects an entity’s exposure to repricing risk is eligible for inclusion in the underlying portfolios (see paragraph B7.2.6–B7.2.8).

The Exposure Draft allows for hedged exposures to be included in the NRRE, but as a pre-requisite the first level relationship is required to be designated in a qualifying IFRS 9 hedge accounting relationship. This means that first level relationships that are not and/or cannot be designated in a hedging relationship cannot be included in RMA as a hedged exposure. This does not align with risk management, and it also deviates from the hedge accounting requirements in IFRS 9. For example, entities use cross-currency derivatives to convert foreign currency exposures into their functional currency or another currency in order to manage repricing risk on an aggregated net basis with other exposures. However, hedge accounting designation for such cross-currency derivatives may be difficult to operationalize or, in some cases, not achievable under IFRS 9. Where hedge accounting under IFRS 9 cannot be applied to the aggregated exposure, the NRRE for a given

managed rate would no longer be aligned with risk management activities, potentially leading to unintended consequences such as over-hedging or under-hedging in RMA.

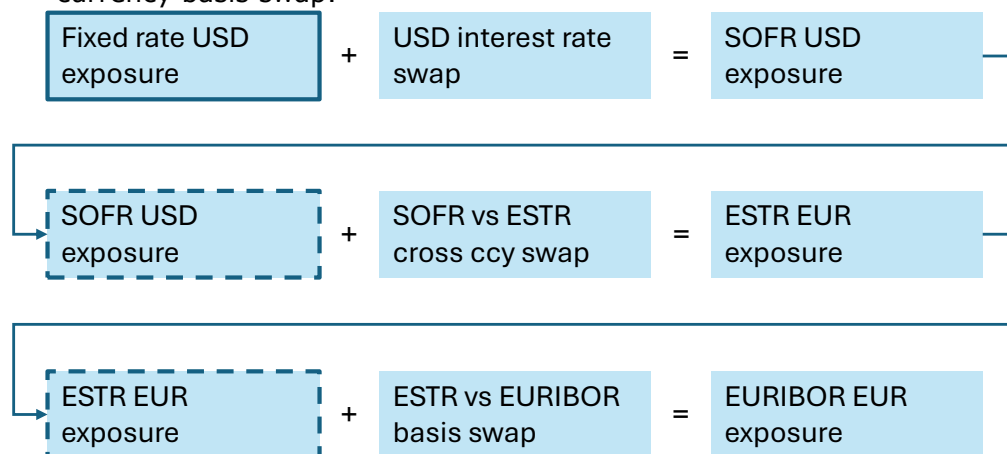
We propose/request that the IASB adjusts RMA, aligns with risk management as well as IFRS 9 general hedge accounting, and allows as hedged exposure also hedging relationships that are not designated in a hedge accounting relationship.

Multi-currency NRRE

Some banks manage their interest rate risk on an integrated portfolio basis across currencies, while deliberately hedging distinct repricing related sub risks independently due to market liquidity constraints and differentiated risk management limits. In practice, a single exposure may give rise to interest rate risk, cross currency basis risk and tenor (single currency) basis risk, each of which is measured separately, subject to its own limits and hedged using different, market standard derivatives. This approach reflects both the economic reality that these risks behave differently and the fact that liquid instruments exist to hedge each risk separately, whereas a single synthetic hedge that combines all risks is typically not available or would impose inappropriate hedge ratios across sub risks.

Example: Fixed rate loan in USD funded by floating rate deposit in EUR with reference rate 3M-Euribor.

- Fixed rate USD exposure swapped into floating USD (SOFR), using a USD interest rate swap.
- Floating rate USD exposure (SOFR) swapped into floating EUR (ESTR), using a SOFR vs ESTR cross currency swap.
- Floating rate ESTR exposure swapped into 3M EURIBOR, using a single currency basis swap.



Please note that each of these layers may be for a different amount, reflecting the fact that the sub-risks may be increased or reduced by other financial instruments of the underlying portfolio and are managed separately.

Under the proposed RMA model, however, these risks may be forced into a single "hedged exposure" that is not itself hedged as a unified position under IFRS 9 hedge accounting, potentially requiring all sub risks to be reflected within one NRRE or, if NRREs are constrained to a single currency, to be split across multiple NRREs by currency. As a result,

components of an economically hedged position may not find a clear or consistent place within the NRRE framework, leading to misalignment between NRREs, internal risk views and risk limits.

Allowing exposures in different currencies to be included within the same NRRE would enable the RMA model to capture this integrated risk management outcome without forcing inappropriate aggregation or fragmentation and would be better aligned with risk management.

The ED does not specifically state that the instruments in the NRRE should all be denominated in the same currency. However, this seems to be implied in paragraph B7.1.8:

ED B7.1.8 An entity could manage repricing risk based on one or more mitigated rates. If the entity manages repricing risk using more than one mitigated rate, it applies risk mitigation accounting separately to each subset of underlying portfolios for which it manages repricing risk based on the same mitigated rate. For example, an entity might specify the benchmark interest rate used for internal transfer pricing purposes as the mitigated rate at a reporting entity level. Alternatively, an entity might manage repricing risk based on different currencies and specify a mitigated rate for each of the main currencies in which the entity's financial instruments are denominated.

The topic is further discussed in the Basis for Conclusions:

ED BC56 During its deliberations, the IASB considered whether an entity could include financial instruments already designated as in a qualifying hedging relationship for a risk other than repricing risk when determining the net repricing risk exposure. The IASB also considered whether the underlying portfolios should include only financial assets and financial liabilities denominated in the same currency.

ED BC57 The IASB noted that underlying portfolios denominated in different currencies typically have different risk characteristics as a result of being linked to different economic environments. Therefore, if the underlying portfolios include financial instruments denominated in different currencies, foreign currency risk could be introduced into the portfolios alongside repricing risk.

ED BC58 Stakeholders explained that they commonly raise funding or originate loans in currencies other than their functional currencies due to lack of market liquidity in their functional currencies. However, for risk management purposes, these financial assets or financial liabilities denominated in foreign currencies are not necessarily assessed separately when managing repricing risk. These stakeholders were therefore concerned that if the IASB were to require allocation of financial instruments to different underlying portfolios based purely on the currency the instrument is denominated in, for many financial instruments this allocation would be arbitrary and would not faithfully represent how an entity manages repricing risk.

ED BC59 The IASB noted that its objective in developing risk mitigation accounting was to reflect in the financial statements the economic effect of how entities manage repricing risk. For this reason, the IASB decided instead to permit an entity to allocate financial instruments to the underlying portfolios and apply risk mitigation accounting based, as closely as possible, on how the entity manages repricing risk.

- ED BC60 An entity might have financial instruments that expose it to more than one risk, for example, interest rate risk and foreign currency risk (see paragraph BC6.160 of the Basis for Conclusions on IFRS 9). However, the entity might have a different risk management strategy for each risk. For example, the entity might manage the currency risk on an individual-instrument basis with a cross-currency swap and then consider the resulting functional currency position on a net basis with other financial instruments when managing repricing risk. Similarly, an entity might decide to hedge the cash flow or fair value variability attributable to interest rate risk on an individual instrument basis and consider the combined effect of the hedged item and hedging instrument when determining its exposure to repricing risk on a net basis.
- ED BC61 The IASB noted that paragraph 6.3.4 of IFRS 9 permits an entity to designate as hedged items aggregated exposures that are a combination of an exposure and a derivative. Although derivatives in isolation are not eligible for inclusion in the underlying portfolios, the IASB acknowledged that the combination of a derivative with a financial asset or a financial liability could affect an entity's exposure to repricing risk. The IASB therefore decided that some hedged exposures are eligible for inclusion in the underlying portfolios. To include a hedged exposure, an entity would be required to designate a hedging relationship in accordance with Chapter 6 of IFRS 9.
- ED BC62 The IASB decided that a hedged exposure is eligible for inclusion in the underlying portfolios if:
- a) the hedged items themselves are financial instruments that are eligible for inclusion in the underlying portfolios.
 - b) the combined effect of the hedged item and hedging instrument changes an entity's exposure to repricing risk. In other words, the effects of the hedging relationship in its entirety must be included in the underlying portfolios.

Some paragraphs in the ED may imply that the items in the NRRE should all be denominated in the same currency. However, there are also certain other paragraphs implying that instrument denominated in different currencies can be combined in one and the same NRRE, such as BC59: "the IASB decided instead to permit an entity to allocate financial instruments to the underlying portfolios and apply risk mitigation accounting based, as closely as possible, on how the entity manages repricing risk" and B7.1.8: "For example, an entity might specify the benchmark interest rate used for internal transfer pricing purposes as the mitigated rate". Therefore, we ask:

1. The IASB to clarify/confirm whether all instruments in the NRRE must be denominated in the same currency or that multi-currency NRRE is possible when it reflects the economic hedging activities of a bank's risk-management approach
2. Should the ED do not allow multi-currency NRRE, then the IASB should consider how such economic hedging activities as described in this section be captured in the RMA model since its objective is for financial statements to represent the economic effect of an entity's risk management activities as stated in paragraph 7.1.3.

Interest rate derivatives (including cross-currency swaps)

Interest rate derivatives

Paragraph 7.3.1. clarifies that only “interest rate derivatives” are eligible as designated derivatives:

ED 7.3.1 For the purposes of applying risk mitigation accounting, designated derivatives are interest rate derivatives that are used to manage an entity’s repricing risk.

The ED does not specify what types of interest rate derivatives are eligible, but BC71 adds further clarification:

ED BC71 The IASB acknowledged that simple interest rate swaps are the most common type of interest rate derivative used for managing repricing risk. However, the Exposure Draft proposes that any interest rate derivatives could be designated derivatives for the purpose of applying risk mitigation accounting, including basis swaps, forward-starting swaps, forward rate agreements and interest rate futures as well as options and swaptions.

Where the IASB mentions “basis swaps” some banks assume that this includes only single currency basis swaps (exchanging one variable rate for another in the same currency) while other banks assume this may also include cross-currency basis swaps (exchanging a variable rate in one currency for another variable rate in the same currency, usually with the same tenor), which hedge the repricing risk between two interest rates in different currencies.

Some banks use interest rate futures (e.g. bund futures) to manage interest rate risk. BC71 does not explicitly mention interest rate futures, but since it does say that “any interest rate derivative could be designated”, we assume interest rate futures are also considered eligible.

We assert that multi-currency basis swaps are interest rate derivatives and therefore they are included in the wording “basis swaps” in BC71 along with tenor basis swaps (i.e. single currency) and the IASB should clarify this.

Cross-currency swaps

Cross-currency swaps contain a substantive and economically distinct interest rate component in addition to a currency component. Each leg of a cross-currency swap generates cash flows determined by benchmark interest rates (fixed or floating) in the respective currencies, meaning that the value and cash flow variability of the instrument are materially driven by changes in interest rates, not solely by exchange rate movements. In practice, many banks use cross currency swaps as core tools of interest rate risk management. For these reasons, cross currency swaps should be regarded as interest rate derivatives for RMA purposes and should therefore be permitted as designated derivatives.

This view is consistent with, and supported by, the treatment of cross currency swaps in a range of relevant industry rules and market frameworks, for example in ESMA’s Reporting Guidelines for EMIR:

"Cross currency swaps are contracts that contain both an interest rate factor and a currency factor. They are considered as interest rate derivatives and should be reported as such under EMIR." (Para 24)

Also, SRP31 does not prescribe eligible hedging instruments, but defines IRRBB as applying to all interest rate sensitive assets, liabilities and off-balance sheet items assessed on a net basis. Cross currency derivatives contain interest rate legs whose sensitivity contributes to IRRBB EVE and NII regardless of the presence of FX cash flows. Consistent with BCBS principles, the interest rate component of a cross currency derivative therefore falls within IRRBB scope, while FX and cross currency basis components are managed outside IRRBB.

Cross currency swaps can also be "included" in RMA, as part of a hedged exposure (section 3.4.), as highlighted in paragraph B7.2.7 below:

ED B7.2.7 In some cases, financial instruments that are eligible to be included in the underlying portfolios are designated as hedged items (in accordance with Chapter 6) and an entity's exposure to repricing risk is affected by the hedged exposure. In such cases, an entity includes that hedged exposure in the underlying portfolios in its entirety. For example, an entity might have fixed rate financial liabilities denominated in a foreign currency that the entity might hedge using cross-currency interest rate swaps. If so, the entity might designate the financial liabilities in a hedging relationship to hedge both interest rate risk and foreign currency risk. This hedged exposure would effectively transform the fixed-rate foreign currency financial liabilities into variable-rate functional currency financial liabilities. Consequently, the exposure to repricing risk arising from this hedged exposure would be similar to that of the entity's other variable-rate financial instruments in its functional currency. In this case, the hedged exposure would be eligible for inclusion in underlying portfolios.

A more detailed example on using cross-currency swaps in hedged exposures is worked out in Illustrative Examples – Example 21.

Please note that for hedged exposures we did already request/propose that the IASB changes the requirements such that for the hedged exposure to qualify for RMA it is not a prerequisite that the first level hedging relationship is in a qualifying hedging relationship (section 3.4.).

As already proposed in section 3.6.1., we assert that multi-currency basis swaps are interest rate derivatives and therefore they are included in the wording "basis swaps" in BC71 along with tenor basis swaps (i.e. single currency) and the IASB should clarify this.

Net written options

Paragraph 7.3.3 of the ED permits the designation of a written option as part of the hedging instrument only to the extent that the written option is designated together with a purchased option under the RMA model. This represents a more restrictive approach compared with IFRS 9, which allows the designation of a written option as a hedging instrument where the written option hedges a purchased option, including a purchased option that is embedded in the hedged item (IFRS 9 paragraph B6.2.4).

IFRS 9 illustrates this principle using the example of a callable liability that is hedged using a written call option. Another example is a written floor option used to hedge purchased floor options embedded in certain products offered by a financial institution. As part of its

risk management activities, a financial institution may write options to hedge the interest rate risk arising from such floored products.

Despite the fact that BC75 states that the restrictions to designate written options are the same as in IFRS 9. However, reading paragraph 7.3.3 it appears that RMA language is more restrictive than the language in IFRS 9 as explained above.

We propose/request that the IASB aligned with IFRS 9 on this point and allows the designation of (net) written options hedging a purchased option, including a purchased option that is embedded in the NRRE.

Examples

FX, cross-currency derivatives not in IFRS9 HA (hedged exposures)

Example 1 Euro Fixed asset funded EUR, USD & EMB

In this example EUR 100 fixed assets are funded with fixed EUR 40 liabilities, USD 50 float liabilities and 10 Equity. The USD is swapped to EUR with a FX swap. The risk management strategy is to first hedge 100% of fixed assets and liabilities to floating per currency using an EVE measure. As a second step the Equity Model Book (EMB) per currency is determined based on the notional mismatch (assets -/- liabilities) per currency and stabilize NII for x years.

Example 1a EUR funded with float USD & EMB

CNOP			
EUR fixed	100	EMB	10
		USD float	50
		EUR fixed	40
Derivatives			
EUR payer	-100	Eur receiver	10
		USD/EUR pay	50 FX rate 1:
		Eur receiver	40

EUR EVE

CNOP 60

Derivatives/RMI -60

EUR NII 10 Eur pay leg 50 CCYB to be included

USD EVE

CNOP

Derivatives/RMI

USD NII 0 USD rec leg 50 CCYB to be included

FX and cross-currency swaps are often used to manage FX positions. In this example IFRS 9 hedge accounting might be easy for the 50 USD/50 EUR FX swap. In practice a combination of different type of FX swaps and or / cross-currency instruments are used to manage FX (and liquidity) risk on a macro basis. This can be in multiple steps from one foreign currency to USD and USD to reporting currency and therefore it is not easy to / not possible to designate IFRS 9 hedge accounting relationships to hedge foreign currency to reporting currency FX risk. If the (individual legs) of the FX swap and / or cross-currency instruments cannot be included to determine the RMA (EMB) portfolio per currency the

EUR EMB will be 60 (instead of 10) and the USD EMB will be -50 (instead of zero), which will be incorrect.

The entity will execute an EUR 10 receive fixed pay floating swap to stabilize NII for x years in this example.

Example 2 EUR, USD funded with EURm USD and EMB

Example 2a EUR and USD funded with EUR, USD and USD EMB

CNOP			
EUR fixed	80	EMB	15
USD fixed	20	USD float	45
		EUR fixed	40
Derivatives			
EUR payer	-80	Eur receiver	10
USD Payer	-20	USD receiver	5
		USD/EUR pay	30 FX rate 1:
		Eur receiver	40

EUR EVE

CNOP 40

Derivatives/RMI -40

EUR NII 10 Eur pay leg 30 CCYB to be included

USD EVE

CNOP 20

Derivatives/RMI -20

USD NII 5 USD rec leg 30 CCYB to be included

In this similar example one needs to include the individual legs to determine the EMB (notional mismatch for EUR and USD) for the NII stabilization risk management strategy for the EUR 10 and USD 5 receiver swaps for x years.

Multi-currency portfolios within the NRRE

The example starts from a single fixed-rate USD exposure (loan or liability). From a risk management perspective, this instrument does not give rise to a single repricing risk, but to multiple distinct repricing-related sub-risks, each of which is measured, monitored and managed separately.

Sub-risk	Description	Risk management relevance
USD interest rate delta risk	Sensitivity of fixed USD cash flows to movements in USD interest rates	Core interest rate risk, typically managed and hedged at portfolio level
USD/EUR cross-currency basis risk	Spread between USD SOFR and EUR ESTR when funding is economically converted into EUR	Managed separately due to different drivers and limits
EUR tenor (single-currency) basis risk	Spread between EUR ESTR and 3-month EURIBOR where EURIBOR is the internal risk-mitigating rate	Managed independently, often selectively hedged

This decomposition reflects how risk is viewed economically and operationally, rather than an accounting construct.

Use of multiple derivatives rather than a single synthetic hedge

In theory, the fixed-rate USD exposure could be hedged using a single synthetic derivative converting fixed USD directly into floating 3-month EURIBOR. In practice, this is not how markets or risk management operate.

A fixed-USD-to-EURIBOR swap is not a standard or liquid market instrument. Instead, market conventions and liquidity constraints require the use of multiple standard derivatives, each aligned to a specific sub-risk.

Derivative	Economic function	Sub-risk addressed
USD interest rate swap (fixed → SOFR)	Converts fixed USD exposure into floating USD	USD interest rate delta risk
USD/EUR cross-currency swap (SOFR → ESTR)	Converts USD floating exposure into EUR floating exposure	Cross-currency basis risk
EUR basis swap (ESTR → 3M-EURIBOR)	Aligns EUR floating exposure with internal mitigating rate	EUR tenor basis risk

Each derivative exists because it is liquid, observable and risk-specific, and because risk management requires the flexibility to address each risk independently.

Independent hedging and differentiated hedge ratios

A critical feature of the example is that risk management does not hedge all sub-risks in the same proportion. Each sub-risk is subject to its own sensitivities, limits and risk appetite.

For example:

- USD interest rate delta risk may be fully hedged,
- EUR interest rate delta risk may be partially hedged
- Cross-currency basis risk may be partially hedged, and
- EUR tenor basis risk may be left unhedged, provided each risk remains within its respective limits.

In addition, parts of these risks may be naturally offset by other balance-sheet positions (e.g. floating-rate USD deposits partially offsetting fixed-rate USD loans). As a result, imposing a single synthetic hedge ratio across-all sub-risks would be inconsistent with risk management practice and could lead to over- or under-hedging of specific risks.

Example multi-CCY-portfolio approach for managing repricing risk based on one risk mitigating rate (3M-Euribor)

USD/EUR 1.15					Repricing risk dimensions				
					Delta Risk USD	Delta Risk EUR	Delta Risk Total	SOFR/Estr basis risk	Estr/3M-E basis risk
Underlying Portfolio					kUSD	kEUR	kEUR	kUSD	kEUR
USD Loan	10Y bullet	fixed	-10.0	-8.7	-8.3		-7.2	-8.4	7.6
USD Loan	10Y bullet	floating SOFR	-15.0	-13.0			0.0	-12.6	11.3
EUR Loan	10Y bullet	fixed	-20.0	-20.0		-17.1	-17.1		
USD Deposit	10Y bullet	fixed	5.0	4.3	4.2		3.6	4.2	-3.8
EUR Deposit	10Y bullet	fixed	25.0	25.0		21.4	21.4		
EUR Deposit	10Y bullet	floating 3M-E	12.4	12.4			0.0		
							0.0		
NRRE				0.0	-4.2	4.3	0.7	-16.8	15.1
Hedge Derivatives			mCCY	mEUR equivalent	kUSD	kEUR	kEUR	kUSD	kEUR
USD IRS	10Y	Pay fixed/Rec SOFR	5.0		4.2		3.7		
EUR IRS	10Y	Pay 3M-E/Rec fixed	4.5			-3.9			
USD/EUR BS	10Y	Pay SOFR/Rec Estr	18.0	15.7				15.1	
EUR TBS	10Y	Pay Estr/Rec 3M-E	15.0						-13.1
Mitigated Risk					4.2	-3.9	-0.2	15.1	-13.1
Risks after Hedging					0.0	0.4	0.4	-1.7	2.0
Limit					+/-5.0	+/-5.0	+/-5.0	+/-3.0	+/-3.0

Implications for NRRE design under the RMA model

The example highlights a fundamental tension with the proposed RMA model. Where RMA is interpreted as requiring:

- a single hedged exposure designated in an IFRS 9 hedging relationship,
- a single NRRE, and
- potentially one NRRE per currency,

the independently hedged sub-risks described above may be forced into artificial structures that do not reflect how risk is managed.

In particular:

- components of an economically hedged position may not find a clear place in the NRRE,

- cross-currency and basis risks may be split across-different NRREs or excluded,
- and alignment between NRREs, internal risk views and risk limits may be lost.

This is not an edge case but reflects a common portfolio-based risk management set-up, especially for banks operating across-currencies.

Issue observed

The example demonstrates that the proposed RMA model may not faithfully represent portfolio-based risk management practices where multiple repricing-related sub-risks are managed jointly but hedged independently. In particular, interpreting the NRRE as being constrained to a single currency risks fragmenting economically linked risks across-NRREs or excluding components of the overall hedged position, leading to misalignment between accounting outcomes and risk management.

Recommendation to the IASB

The IASB is therefore requested to clarify whether the Exposure Draft permits an NRRE to comprise exposures in more than one currency where this reflects the entity's risk management strategy. Allowing multi-currency NRREs in such circumstances would enable the RMA model to capture the aggregation of repricing-related sub-risks while preserving independent hedging, thereby improving faithful representation and operability without requiring changes to established risk management practices.

Therefore, we ask:

1. The IASB to clarify/confirm whether all instruments in the NRRE must be denominated in the same currency or that multi-currency NRRE is possible when it reflects the economic hedging activities of a bank's risk-management approach.
2. Should the ED do not allow multi-currency NRRE, then the IASB should consider how such economic hedging activities as described in this section be captured in the RMA model since its objective is for financial statements to represent the economic effect of an entity's risk management activities as stated in paragraph 7.1.3.

Operability concerns

From an operability perspective, the EBF sees a fundamental misalignment between the proposed RMA model and established interest rate risk management practices, which significantly limits the model's ability to reflect how risk is managed in practice.

More broadly, and as illustrated by the issues described, the proposed RMA model introduces structural limitations in capturing common IFRS-compliant practices, including the treatment of FVTPL and FVOCI items, the hedge of aggregated exposures including but not limited to multi-currency risk management practices and component-based hedging approaches, and the eligibility of commonly used derivative instruments.

Taken together, these limitations raise concerns about the operational viability of RMA, as they may require entities to either modify well-established and effective risk management practices or accept accounting outcomes that do not faithfully represent the underlying risk mitigation activities.

Conclusion

It is very important that the NRRE aligns with risk management and all instruments in scope for risk management ("manage reprising risk on a net basis") can also be included in RMA. If this is not the case, we believe this can have severe knock-on effects on the rest of the RMA model, e.g. it raises doubts about artificial over-hedging in RMA and/or the usability of an entity's risk limits in RMA.

In order to allow this, we ask the IASB staff to clarify a number of things:

- Clarify that multi-currency NRRE is possible when it reflects the economic hedging activities of a bank's risk-management approach.
- Clarify that the wording "basis swaps" in BC71 also covers currency basis swaps along with tenor basis swaps.

In addition, we are also propose/request the IASB makes some changes to the ED:

- Consider instruments at FVPL eligible.
- Consider eliminating the accounting mismatch in OCI from financial assets at FVOCI.
- Remove the restriction for hedged exposures that the first level relationship has to in hedge accounting.
- Allows the designation of (net) written options hedging a purchased, including a purchased option that is embedded in the NRRE.

Appendix/Supporting documentation

N/A

WG7 I RMA ELIGIBILITY OF INTERNAL INSTRUMENTS

Information sheet

		<i>Title</i>	WG7 I RMA ELIGIBILITY OF INTERNAL INSTRUMENTS
		<i>Paper writer</i>	EBF Hedge Accounting Workgroup
		<i>Type of paper</i>	Fatal flaw: request/demand for change
(17)	Interpretation/clarification		
(18)	Fatal flaw: request/demand for change		
		<i>Adjustment required for RMA?</i>	Yes
		<i>Conceptual issue?</i>	Yes
		<i>RAG⁹</i>	

⁹ Please refer to the latest version of the document "Definition of Traffic Light Colouring/System" for the corresponding definition of the traffic light system applied

Contents

Introduction	150
Background	150
Executive summary	150
Regulation	152
Applicable law and articles (accounting and/or regulatory)	152
Proposed treatment	153
Examples	154
Overview of the solutions identified	157
Conclusion	159
Appendix/Supporting documentation	160

Introduction

Background

Whereas the Exposure Draft requires applying Risk Mitigation Accounting at the level at which repricing risk is managed which could be a subsidiary, branch or portfolio level, it also states that transactions that are internal and hence eliminated at consolidated level do not qualify for hedge accounting under the new RMA framework. This introduces an inconsistency that may have significant impacts in groups where internal funding and/or hedging is central to repricing risk management which may be the case in both cooperative and commercial banks.

Such requirements create a disconnect between economic risk management and accounting treatment, which goes against the ED's aim to better align risk management practices and accounting treatment. For example, in many banking groups, particularly in regulated environments, subsidiaries are subject to local regulatory requirements and are therefore required to manage their interest rate risk independently, including through locally executed hedging strategies.

Excluding internal funding transactions can artificially alter the NRRE defined locally and consequently the local risk Mitigation Adjustment, or even prevent its identification, even though the underlying economic repricing risk remains at group level which raises concerns about the ability of the current model to faithfully represent the actual risk profile. Also, disregarding intragroup hedging derivatives that are integral to the actual risk mitigation strategy would lead to a disconnect between the accounting designation and the way the risk is actually managed. Indeed, although internal derivatives are ultimately externalized, they remain the mechanism through which the risk is actually transferred and ignoring them would prevent the model from evidencing alignment with actual risk-mitigation strategy.

This analysis is consistent with the principles set out in IFRS 9, which focus on the existence of an external risk exposure rather than on the intra-group nature of transactions, as illustrated by the exception relating to intra-group monetary items under paragraphs 6.3.5 and 6.3.6.

Amending risk management documentation at the entity level to exclude intra-group transactions could lead to distorted outcomes and would be inconsistent with the intended objective. As illustrated in question 1.c, it is essential to demonstrate that the observed practices do not stem from artificial constructs, but rather faithfully reflect an effective and prudent management of interest rate risk.

This issue did not arise under IAS 39 because the documentation on gross basis and proxy hedging enabled to overcome the issue whereas the RMA framework adopts a net approach to the monitoring of outstanding exposures.

Executive summary

This paper reflects the findings and conclusions from a broad spectrum of banks, ranging from large institutions to smaller players, and encompassing both commercial and cooperative business models.

The model is deemed highly complex and, through the exclusion of internal transactions, not reflecting faithfully the way risks are actually managed.

Pragmatic solutions have been identified (refer to section 5) however, it has not yet been possible to assess whether they are effective.

Regulation

Applicable law and articles (accounting and/or regulatory)

Paragraph B7.1.7 states that “the level at which an entity applies risk mitigation accounting is determined by how the entity manages repricing risk in accordance with its risk management strategy. Therefore, the entity applies risk mitigation accounting at the level at which the entity determines the exposure to repricing risk on a net basis. For example, if, in accordance with the risk management strategy, an entity manages repricing risk at a reporting entity or consolidated group level only, the entity applies risk mitigation accounting at that level. However, if an entity manages repricing risk at a lower level within the reporting entity—for example, based on different geographical areas or different currencies—the entity applies risk mitigation accounting at that level”.

Paragraph 7.2.3 states in turn that it is not possible to apply the RMA model to assets and liabilities that are eliminated on consolidation: “Only financial instruments with a party external to the reporting entity are eligible to be included in the underlying portfolios. Financial instruments between entities in the same group can only be included in the underlying portfolios for the purposes of applying risk mitigation accounting in the individual or separate financial statements of those entities and not in the consolidated financial statements of the group”.

BC34 mentions that “Risk mitigation accounting reflects the risk management strategy of the reporting entity, which might be based on a centralised or decentralised model. Therefore, any differences in risk management strategy between entities within a consolidated group should be considered when the reporting entity decides how to apply risk mitigation accounting”.

Proposed treatment

As a result of the obligation to eliminate internal transactions, consolidation rules (for example, the elimination of internal transactions) may conflict with risk management documentation prepared at local level or even render hedge accounting inapplicable at group level.

Indeed, for some banks consolidated risk limits are set centrally and then cascaded down to be ultimately assigned at the lowest operational level where risk is actually managed. Such lowest operational level could be either at the level of a legal entity, but also at a sub-level / portfolio level within a legal entity. At this level, the net repricing risk position that is managed for interest rate risk is made of transactions that are both internal and external at consolidated level (even though external at the level at which they are managed).

Therefore, by excluding internal transactions at consolidated level from the NREE defined locally, entities would be required to document positions (NRREs) and measure Risk Mitigation Adjustments that do not reflect their actual risk management model; hence creating a disconnect between accounting outcomes at consolidated level and the way interest rate risk is actually managed.

Examples

The subsequent illustrative examples show why the consolidation process gives rise to an accounting issue when the risk management strategy is defined at subsidiary level.

This example 1 relies on 2 simplified assumptions: Repricing risk is managed at subsidiaries level and the internal instrument that is eliminated at consolidated level is a fixed-rate loan.

STATUTORY / STAND-ALONE VIEW			
Subsidiary 1		Subsidiary 2	
Trade Receivables at Fixed Rate	1000	Fixed Rate Deposits	-200
Intragroup Financing at Fixed Rate	-800	Intragroup Loan at Fixed Rate	800
Fixed-Rate Payer Swap (Swap A)	0	Fixed-Rate Payer Swap (Swap B)	-600
Simplified Application of the RMA Model			
Total Fixed Rate Exposure	200	Total Fixed Rate Exposure	600
Designated Derivatives	0	Designated Derivatives	-600
Benchmark Derivatives	0	Benchmark Derivatives	600
Conclusions	OK	Conclusion	OK

CONSOLIDATED VIEW			
Trade Receivables at Fixed Rate	1000	Swap A	0
Fixed Rate Deposits	-200	Swap B	-600
Total Fixed Rate Exposure	800		

Simplified Application of the RMA Model			
ED RMA Approach			
Subsidiary 1 after Intragroup		Subsidiary 2 after Intragroup	
Total Fixed Rate Exposure	1000	Total Fixed Rate Exposure	-200
Designated Derivatives	0	Designated Derivatives	-600
Benchmark Derivatives	0	Benchmark Derivatives	-200
Conclusions	OK	Conclusion	KO
Considered Alternative			
Total Central Fixed Rate Exp.	800		
Designated Derivatives	-600		
Benchmark Derivatives	600		
Conclusions	OK		

This illustrative example highlights two approaches:

1. NRRE is defined at local level where Risk Mitigation Management operates. It is then adjusted in the consolidated financial statements in order to eliminate intragroup transactions. The consolidation process leads to over hedging which will lead to a P&L impact in the Group Income Statement.
2. "Considered alternative" relies on the fact that intragroup transactions are not eliminated in the NRRE.

The second following example relies as well on 2 simplified assumptions: Repricing risk is managed at subsidiaries level and the internal instrument that needs eliminating is a floating-rate loan.

STATUTORY / STANDALONE VIEW			
Subsidiary 1		Subsidiary 2	
Fixed rate loan	1000	Floating rate intercompany loan	1000
Floating rate intercompany Funding	-1000	Fixed rate deposit	-1000
Fixed rate Payer Swap (swap A)	-800	Fixed rate receiver swap (swap B)	1000
Simplified application of the RMA model			
Total Fixed rate exposures	1000	Total Fixed rate exposures	-1000
Benchmark derivative	800	Benchmark derivative	-1000
Designated derivative	-800	Designated derivative	1000
Conclusions	OK	Conclusions	OK
ED RMA Approach			
Subsidiary 1 after Intragroup		Subsidiary 2 after intragroup	
Total Fixed rate exposures	1000	Total Fixed rate exposures	OK
Benchmark derivative	800	Benchmark derivative	0
Designated derivative	-800	Designated derivative	0
Conclusions	OK	Conclusions	OK
At consolidated level excluding intragroup transactions			
Total Fixed rate exposures	0		
Benchmark derivative	0		
Designated derivative	200		
Conclusion	KO		

Similarly to first example, this second illustrative example highlights that eliminating internal transactions would lead to show, if NRRE were redefined at consolidated level, an artificial "overhedge" situation at Group consolidated level which is not reflective of the way risk is actually managed at local level.

In theory, this issue arises for example when both subsidiaries do not have the same Risk Mitigation Objective and has the following impacts:

	IAS 39 equivalent	CFH	FVH
	Key Risk Metric	NII	EVE
Type of Intercompany transaction getting eliminated	Floating Rate Funding Fixed Rate Funding	The issue remains N/A	N/A The issue remains

Eliminating internal funding from an NRRE designed to manage NII implicitly amounts to replacing it with equity, since equity is the only source of funding that does not generate interest expense. As a result, such elimination will affect each entity's NRRE only when the funding is floating-rate.

The elimination of internal funding that is fixed-rate, and whose impact on each entity's NII is insensitive to interest rate movements, cannot therefore affect NII variability. Consequently, the NRRE should not be affected by the elimination of this funding.

Reverse approach (i.e. EVE is the key risk metric): floating-rate funding does not change the NRRE, since the focus is solely on fixed-rate gap positions.

In practice, internal funding, repricing dynamics and portfolio reallocations are interdependent, so isolating fixed-rate gaps or neutralizing floating-rate funding breaks the link with how risk is actually managed and monitored over time.

Overview of the solutions identified

We have identified 3 solutions to address the issue at stake; solution 3 being the preferred one.

Title	Solution #1	Solution #2	Solution #3
<i>Idea</i>	Stopgap/hybrid approach	Non-elimination of internal transactions	Non-elimination of internal transactions for RMA documentation and RMA adjustment measurement purposes
<i>Implementation</i>	Where intragroup (I/G) transaction is used, ensure that it either does not contribute to the local entity NRRE or is offset by an equivalent external exposure in the other subsidiary (e.g. fixed rate I/G lending funding fixed rate external loans) that is not already covered by another RMO.	An exemption already provided for under IFRS 9 for treasury shares/ self held debt instruments used to hedge insurance contracts (IFRS 9.3.3.5 and IAS 32.33A)	RMA at consolidated level equals the aggregation of RMAs measured at local level.
<i>Our analysis</i>	This solution does not work because it would replace a clear, rule based ALM framework with ongoing case by case judgments, bespoke controls, and fragile assumptions, making the risk measurement operationally complex, hard to automate, and difficult to defend over time.	It is impossible to identify I/G transactions when RMA accounting entries add up for consolidation purposes.	The RMA documentation shall be made at the lowest operational level at which the risk is managed, as stated in paragraph B7.1.7. The documentation at consolidated level will therefore merely reflect the aggregation of local RMA documentations. Process of elimination of intra-group transactions at consolidated

<i>Title</i>	Solution #1	Solution #2	Solution #3
			level is not affected.
<i>Conclusions</i>	NOT SATISFACTORY	NOT SATISFACTORY	SATISFACTORY

An exemption is already provided for under IFRS 9 for treasury shares / self-held debt instruments used to hedge insurance contracts (IFRS 9.3.3.5 and IAS 32.33A).

Similarly, another exemption is already provided for in IAS 21.45 where exchange differences arising on intra-group monetary items are NOT eliminated on consolidation.

Conclusion

The analysis demonstrates that the prohibition on applying the RMA model to internal positions eliminated on consolidation creates a material disconnect between economic risk management and accounting outcomes, especially when the local NRREs impacted by the intragroup transactions are not subject to the same RMO or do not equally include the intragroup funding among the NRRE positions.

Where repricing risk is genuinely managed at lowest operational level using internal funding, the consolidation process can distort the NRRE, generate artificial over-hedging, or even prevent the application of hedge accounting at group level, despite the persistence of the underlying economic risk.

The illustrative examples show that this issue does not stem from inappropriate risk management practices, but from the interaction of a net-based RMA framework with consolidation mechanics that neutralize internal instruments without regard to their role in interest margin stabilization.

To remain aligned with risk management, under no circumstances should a group with a decentralized risk management approach be forced to establish an artificial group NRRE and an artificial group RMO at the consolidated level. In the absence of a uniform, group-wide risk management strategy (which typically does not exist in a decentralized risk management approach), this would not be possible without arbitrariness.

Similarly, disregarding internal hedging derivatives at consolidated level whereas they are eligible at the level at which the NRRE is managed would suppress the effect of the hedging instruments that actually transfer the risk and thereby fail to provide a faithful representation of the risk mitigation effectively achieved at local level where risk is actually managed.

Absent a targeted clarification or exception within the RMA framework, the current model description explained in the December 2025 ED risks undermining the stated objective of aligning accounting more closely with risk management. A solution that allows internal transactions used for repricing risk management to be reflected consistently at consolidated level would be necessary to avoid misrepresenting banks' interest rate risk management activities in the financial statements. In this regard, solution 3 displayed in the table above appears to be the only satisfactory solution while consistent with similar exemptions already provided in IFRS standards for exchange differences on intragroup instruments or own issuances held as a hedge of insurance contracts issued.

Appendix/Supporting documentation

N/A

WG8 I NON-LINEAR RISK – APPLICATION IN THE RISK MITIGATION ACCOUNTING EXPOSURE DRAFT

Information sheet

		<i>Title</i>	WG8 I NON-LINEAR RISK – APPLICATION IN THE RISK MITIGATION ACCOUNTING EXPOSURE DRAFT
		<i>Paper writer</i>	EBF Hedge Accounting Workgroup
		<i>Type of paper</i>	Fatal flaw: request/demand for change
(19)	Interpretation/clarification		
(20)	Fatal flaw: request/demand for change		
		<i>Adjustment required for RMA?</i>	Yes
		<i>Conceptual issue?</i>	Yes
		<i>RAG¹⁰</i>	

¹⁰ Please refer to the latest version of the document “Definition of Traffic Light Colouring/System” for the corresponding definition of the traffic light system applied

Contents

Introduction	164
Background	164
Regulation.....	165
Applicable law and articles (accounting and/or regulatory).....	165
Designation of non-linear risk in RMA – References in the Exposure Draft	165
How to incorporate non-linear interest rate risk into the RMA model	166
How does this fit in the principles of the RMA model?	167
Initial assessment on the ED supporting inclusion of non-linear risk exposures.....	168
Proposed treatment.....	170
Broaden scope from “repricing risk” to “eligible interest-rate risk exposures”	170
Redefine “mitigated rate” with a broader concept such as “mitigated risk factor”	171
Make explicit that purchased options and swaptions can be designated for a non-linear layer.....	171
Expand the benchmark-derivative guidance so benchmark derivatives may be option-based.....	172
Require the non-linear layer to be measured and presented separately from the linear layer.....	172
Non-linear interest rate risk examples	174
Simple example (IR delta layer plus IR vega layer).....	174
Scaled example (portfolio-level application and operability)	175
Operability concerns	179
Overall conclusion	181
Appendix/Supporting documentation	182

Introduction

Background

In practice, banks manage interest rate risk across multiple dimensions, not only through linear repricing exposures but also through non-linear risk components, including volatility (IR vega) and convexity (gamma), and - depending on product mix-basis-related sub-risks (e.g. benchmark basis or currency basis). Non-linear risk arises from instruments with convex payoff profiles and from embedded options within banking book portfolios.

Non-linear risk arises from features such as:

- Prepayment options embedded in mortgage portfolios,
- Pipeline optionality (e.g. loan commitments not yet drawn),
- Floating rate loans with capped customer rate
- Customer behavioural optionality (e.g. early redemption, deposit withdrawals); and
- Usage of hedge derivative instruments with optionality, such as swaptions, caps and floors.

To manage these exposures, banks typically:

- Measure linear (repricing/delta) risk and non-linear (vega/convexity) risk separately, using distinct sensitivities and valuation inputs,
- Apply distinct risk limits and metrics (e.g. DV01/BPV floor delta risk vs IR vega sensitivities and volatility-surface shocks for volatility risk); and
- Use different hedging instruments for different risk dimensions, such as:
 - Interest rate swaps for delta risk; and
 - Swaptions or other options for IR vega (and related convexity) risk

These risk dimensions are often managed as separate but complementary layers within an integrated risk management framework. The risk management objective is typically expressed under one overarching measurement approach (commonly economic value-based), while allowing multiple risk dimensions to be monitored within that approach. This is particularly relevant when portfolios include products whose risk profile cannot be represented by timing-and-amount repricing alone.

Regulation

Applicable law and articles (accounting and/or regulatory)

Designation of non-linear risk in RMA – References in the Exposure Draft

The ED contains very limited guidance on the designation on non-linear interest rate risk. The most direct reference is the eligible instrument criteria in 7.3.2 and the Basis for Conclusions, where the IASB acknowledges the use of non-linear derivatives in practice but indicates concerns about increased complexity and reduced comparability if non-linear instruments are incorporated into a model framed around repricing risk.

ED 7.3.2 A derivative is not eligible to be included as a designated derivative if: (a) it is a net written option; or (b) its fair value changes are dominated by the effect of risks unrelated to changes in the mitigated rate, such as credit risk.

Despite paragraph 7.3.2(a), a net written option that offsets purchased options included as designated derivatives would be eligible to be included as a designated derivative if the combined effect is not that of a net written option.

ED BC71 The IASB acknowledged that simple interest rate swaps are the most common type of interest rate derivative used for managing repricing risk. However, the Exposure Draft proposes that any interest rate derivatives could be designated derivatives for the purpose of applying risk mitigation accounting, including basis swaps, forward-starting swaps, forward rate agreements and interest rate futures as well as options and swaptions.

While these passages support eligibility of option-based derivatives, they do not clearly address whether the full risk profile that motivates the use of those instruments (including volatility and convexity effects) is within the scope of the model's "net repricing risk exposure" concept and associated mechanics.

The IASB staff paper from July 2023 ("Designated Derivatives") discusses inclusion of non-linear risks more explicitly and introduces the notion that an entity should reflect non-linear interest rate risk in a way consistent with its risk management strategy, while avoiding double counting where expected cash flows and separate non-linear risk recognition might overlap. In that context, the staff paper (31 – 33) also acknowledges that an entity might manage non-linear risk within or outside the model, depending on its strategy and capabilities.

Presented below are the relevant sections from the July 2023 staff paper entitled "Designated Derivatives".

Section 29. While we acknowledge that an entity could manage non-linear interest rate risks in many different ways, the objective of the DRM model is to reflect the effects of how an entity manages these risks in financial statements. Therefore, an entity is required under the DRM model to reflect its non-linear interest rate risk in the underlying financial assets and financial liabilities using an approach that is consistent with its risk management strategy.

- Section 30. While determining the CNOP, using the expected cash flows are the most commonly adopted approach based on the outcome of our outreach, we are of the view that this is not the only possible way to manage non-linear interest rate risk. Such an approach is in essence a proxy method for measuring the actual effect of the entire financial asset or financial liability, including any embedded prepayment option that is attributable to changes in interest rates, or any contractual terms that lead to non-linear cash flows.
- Section 31. Conceptually, an entity is also able to reflect the effect of their non-linear interest rate risk using other methods as long as they are consistent with the entity's risk management strategy. However, to avoid the risk of double counting the effect of non-linear contractual terms (such as prepayment option terms), an entity cannot not use expected cash flows and include non-linear risks in the CNOP simultaneously.

In addition, the IASB staff (31-33) discussed the situation where entities manage non-linear risk outside of the model. Here the IASB staff concluded that "... it would also be possible for an entity to manage the non-linear interest rate risk outside of the DRM model. The entity could then designate the combined effect of the hedge exposure (which only has linear interest rate risk) in the CNOP".

How to incorporate non-linear interest rate risk into the RMA model

The current ED is very principle based and does not provide any guidance on how to incorporate non-linear interest rate risk into the RMA model. In practice, incorporating non-linear interest rate into RMA requires clarity on:

- (i) what constitutes the eligible risk exposure,
- (ii) how the benchmark derivative concept applies to option-based instruments,
- (iii) how capacity and risk limits interact across risk dimensions, and
- (iv) how the RMA adjustment and subsequent amortization/recycling mechanics operate when option premia and time value are present.

A practicable approach should reflect that:

- Volatility risk is linked to the level and dynamics of benchmark rates (through moneyiness, implied volatility and the distribution of future rates), but it is not itself a "benchmark interest rate" as used in a delta repricing framework.
- The valuation of option-based derivatives is affected by several drivers (e.g., rate level, volatility, time decay, skew), which implies that the model must either:
 - clearly define which risk factors are included in the "mitigated" component for a non-linear layer; and/or
 - require that benchmark derivatives for that layer be constructed to reflect those risk factors in a controlled, auditable way.

At a high level, an RMA approach capable of capturing both linear and non-linear interest rate typically has the following characteristics:

- One overarching risk measurement approach (commonly economic value-based) that allows multiple risk dimensions to be monitored within the same risk mitigation objective; and

- A structured representation of risk dimensions so the accounting mechanics (benchmark derivatives, lower-of-test, amortisation) remain operable and avoid double counting.

How does this fit in the principles of the RMA model?

The principles-based nature of the ED is specifically embedded in the overarching intention of RMA to reflect risk management practices as basis for the application of the new model, this includes no explicit prohibition of non-linear instruments (e.g. options) and instead focuses on derivatives used to mitigate risk". Therefore, if an entity manages linear and non-linear interest rate risk in a layer approach then RMA should reflect this approach, i.e. the model starts with the identification of the mitigated risk, then focuses on the risk mitigation objective that results in the creation of the benchmark derivative and subsequently into the measurement process with the final step being the posting of the RMA adjustment through the Lower-of-test. This is also supported by the IASB staff views outlined in the IASB staff paper from July 2023.

However, where the current wording in the ED is less supportive is in the definition of net repricing risk that suggests a limitation to interest rate repricing risk.

ED 7.1.1 An entity's financial instruments might reprice at different times and to different interest rate benchmarks. These repricing differences could be managed on the basis of individual instruments, groups of similar instruments, or on a net basis. To manage repricing risk on a net basis, an entity calculates the aggregated effect of repricing differences arising from financial assets, financial liabilities and future transactions with fixed and variable interest rates.

Appendix A defines repricing risk as a type of interest rate risk that exposes an entity to variability in the cash flows from, and the fair value of, financial instruments, arising from differences in:

- (a) the timing of when financial instruments reprice to benchmark interest rates; and
- (b) the number of financial instruments that reprice in a particular period.

This framing implies sensitivity to benchmark rate levels and repricing timing / amount but does not clearly encompass volatility (IR vega) or related convexity effects. A similar ambiguity arises for sub-risks such as basis risk: while basis swaps are mentioned among eligible designated derivatives, the Exposure Draft does not clearly articulate how such sub-risks fit within the "net repricing risk exposure" concept and benchmark derivative mechanics.

In addition, the definition and application of the benchmark derivative concept is currently implicitly linear, i.e. the whole measurement model assumes:

- Linear sensitivity aggregation
- Time-bucketed exposures
- Present value calculations

ED BC67 The IASB proposes that the net repricing risk exposure is the repricing risk position (by repricing time band) derived from the aggregation of the repricing risk from financial instruments included in the underlying portfolios over the mitigated time horizon. Entities would therefore need to consider reasonable and supportable information to determine the net repricing risk exposure, including all relevant factors. Such factors would include

contractual and behavioural characteristics of the financial instruments in the underlying portfolios.

This would only work if the pay-off is linear in rates. However, with swaptions the value depends on:

- Volatility
- Optionality
- Path/Convexity

As a result, it is currently unclear how to map them into time buckets and to represent them with a single repricing profile.

Option-based derivatives challenge these mechanics because their value depends on additional drivers (volatility, time value, skew) and their sensitivity profile cannot always be represented by a single “repricing profile” by time band. Without further clarification, it is unclear how to:

- Construct benchmark derivatives for option-based layers in a way that remains consistent with the model’s calibration principles,
- Define and isolate the non-linear “mitigated risk factor(s)” for measurement and lower-of-testing, and
- Apply amortization / recycling mechanics when option premia and time value are present.

These issues do not necessarily imply that option-based derivatives are excluded; rather, they indicate that the ED lacks explicit articulation of how non-linear risk dimensions are intended to be reflected within the model’s definitions and mechanics.

Initial assessment on the ED supporting inclusion of non-linear risk exposures

While the wording of ED is very principles-based, its principles are probably more tied to repricing risk and a benchmark interest rate framework. In the draft definitions, repricing risk is defined as variability arising from differences in when instruments reprice and how much reprices in a period; mitigated rate is a benchmark interest rate; and benchmark derivatives are theoretical derivatives that replicate the timing and amount of repricing risk in the risk mitigation objective. In contrast, the IASB staff paper from July 2023 seems to state a clear intention to include non-linear risks into the model.

To provide more explicit support for the inclusion of non-linear risks within the RMA framework, Chapter 3 proposes a set of minimum clarifications and targeted enhancements. These changes aim to:

- Make explicit that the model can accommodate multiple risk dimensions managed within a single overarching measurement approach,
- Enable option-based benchmark derivatives that reflect non-linear risk factors specifically where such instruments include an upfront premium, and
- Ensure that capacity, lower-of-testing, and amortization / recycling mechanics are workable without introducing undue noise into profit or loss.

At a principles level, the ED can be read as sufficiently open to permit inclusion of non-linear interest-rate risk dimensions. The more significant difficulty is not the conceptual eligibility of such risk, but the operability of the model once option-based instruments are

introduced—particularly in relation to benchmark derivative construction, the treatment of option premia and the application of the lower-of mechanism in a manner that does not create avoidable accounting noise.

Proposed treatment

If the IASB's intention was to allow the model to reflect non-linear interest rate risk dimensions managed on a net basis, then they could further clarify this in the final standard such that:

- The scope is not limited to repricing risk only,
- The mitigated element is not restricted to a benchmark interest rate, and
- Benchmark derivatives may be option-based and may reflect non-linear risk factors in a controlled manner.

This does not mean they have to change the entire RMA model, but the following are a set of minimum changes that should be made to clarify the application.

- (a) Broaden scope from only "repricing risk" to "eligible interest-rate risk exposures" (including separately managed sub-risks),
- (b) Redefine "mitigated rate" with a broader concept such as "mitigated risk factor",
- (c) Make explicit that purchased options and swaptions can be designated as hedge derivative for a non-linear risk dimension, and
- (d) Expand the benchmark-derivative guidance so benchmark derivatives may be option-based and may start with a non-zero upfront premium when that premium is inherent to the instrument.

In addition to the above, the IASB could consider providing an illustrative example that shows the application of a swaption-based benchmark derivative in an RMA setting and shows how the premium/time value is handled through the RMA adjustment and subsequent amortization / recycling. It currently only uses interest-rate derivatives and benchmark derivatives in a way that reads linear; there is no example showing a swaption-based benchmark derivative. More specifically, such example should show the following:

- A bank running normal linear RMA with swaps,
- A separate non-linear interest rate risk limit on prepayment / optionality or pipeline optionality,
- Purchased swaptions designated for that non-linear interest rate layer,
- Benchmark swaptions constructed and zero-calibrated, and
- Separate lower-of test and disclosure.

Broaden scope from "repricing risk" to "eligible interest-rate risk exposures"

This is the single most important change. Currently, the ED is drafted around repricing risk only. Without broadening scope, a non-linear interest rate application will appear outside the model's intended risk construct, even if option-based derivatives are eligible as instruments.

A targeted clarification could amend the scope language to indicate that the model may also be applied to other interest-rate risk exposures managed on a net basis, including non-linear and basis-related exposures, when the entity can identify, measure and monitor those exposures consistently with its risk management strategy. For example:

"Eligible interest-rate risk exposure, including repricing risk and, when separately managed, other interest-rate risk dimensions (including non-linear and basis related exposures), provided the

entity identifies, measures and monitors those exposures consistently with its risk management strategy.”

This maintains a principles-based model while reducing ambiguity about the types of risk dimensions intended to be eligible.

Redefine “mitigated rate” with a broader concept such as “mitigated risk factor”

The Exposure Draft currently defines the mitigated rate as a benchmark interest rate used in risk management. This works for delta-style RMA, but not for non-linear interest rate, because its components, e.g. IR vega could be considered not a benchmark-rate concept. A broader notion of “mitigated risk factor” would allow the model to remain principles-based while clarifying that:

- For linear repricing layers, the mitigated risk factor can be a benchmark interest rate, and
- For non-linear layers, the mitigated risk factor can be an observable market-based volatility parameter (or defined portion of a volatility surface) and other relevant interest-rate market factors used to manage the eligible exposure.

A minimum change could introduce language such as:

“The mitigated risk factor is the observable interest-rate market factor (including benchmark interest rates and, where applicable, market-implied volatility parameters) used by the entity to manage the eligible interest-rate risk exposure.”

This avoids forcing non-linear risk into a benchmark-rate-only definition.

Make explicit that purchased options and swaptions can be designated for a non-linear layer

The current draft already does not include all options; it excludes net written options, while allowing a net written option that offsets purchased options if the combined position is not a net written option. But the designated-derivative paragraph can still be read as linking its eligibility to managing repricing risk. As a result, a simple clarification such as the following should be sufficient:

“For an eligible non-linear interest-rate risk exposure, designated derivatives may include purchased options, swaptions, caps, floors and collars, provided they are held to mitigate that exposure and are not, in aggregate, a net written option position.”

This makes explicit that designation can be aligned to a non-linear risk dimension.

In addition, despite the fact that BC75 states that the restrictions to designate written options are the same as in IFRS 9, when reading paragraph 7.3.3 it appears that RMA language is more restrictive than the language in IFRS 9 – please refer WG paper 6 WG6 Interaction IFRS and RMA where it is proposed that IASB aligns with IFRS 9 on this point and allows the designation of (net) written options hedging a purchased option, including a purchased option that is embedded in the NRRE.

Expand the benchmark-derivative guidance so benchmark derivatives may be option-based

As outlined above, non-linear derivatives, such as options (with the exception of net put options), can be designated under the RMA model (7.3.1 to 7.3.3). Benchmark derivatives are constructed based on the risk-adjusted interest rate and calibrated to have an initial fair value of zero at the time of construction (B.7.4.9), which could be viewed as inconsistent with the use of options as designated derivatives. This is because the initial fair value at the start date would be only zero if an option is constructed without an initial premium, e.g. by paying an annualised/ instalment option premium or if the premium to be paid is considered in the FV of the option

As a result, depending on the type of option-based instrument, the requirement for benchmark derivatives to be calibrated with zero PV when constructed could be a challenge. If the benchmark derivative concept is constrained to a zero PV at inception in all cases, it should be clarified in the ED that purchased options with premiums have a zero PV at inception when taking into account cash to be paid for the premium.

The benchmark-derivative guidance should therefore be expanded so that:

- Benchmark derivatives may be option-based when the eligible exposure is non-linear, and
- The benchmark derivative may include an initial premium when that premium is intrinsic to the instrument and consistent with the risk mitigation objective.

We would propose the following changes:

"If the eligible interest-rate risk exposure is non-linear, the benchmark derivatives shall represent the timing, amount and relevant non-linear sensitivity of that exposure. Such benchmark derivatives may include optionality, provided that optionality is present in both the designated derivatives and the risk mitigation objective. When an initial premium is inherent to an option-based benchmark derivative, the benchmark derivative shall be calibrated consistently with the entity's risk management strategy and observable market inputs."

This retains comparability through the requirement for observable inputs and strategy-consistent calibration while avoiding a structural conflict between purchased options and a universal zero-PV requirement.

In practice, an option-based benchmark derivative would need to be calibrated by reference to the same variables used to monitor the underlying non-linear risk exposure, including the relevant forward-rate curve, implied volatility inputs, exercise and maturity profile, exposure amount and an appropriate strike convention. The strike convention may depend on the entity's risk management approach, but the guiding principle should be that the benchmark derivative is calibrated using observable market inputs and remains representative of the non-linear exposure being managed.

Require the non-linear layer to be measured and presented separately from the linear layer

A workable model must prevent unintended outcomes such as:

- Double counting capacity by using the same underlying exposure multiple times across risk dimensions, or

- Splitting the same unit of account (e.g. a single derivative) across separate RMA models in a way that is not operationally feasible.

At the same time, the model must allow an entity to reflect how it manages multiple risk dimensions within an overarching measurement approach.

A principles-based way to achieve this is to clarify that:

- The risk mitigation objective may include multiple risk dimensions within one overarching measurement approach (commonly economic value-based), and
- Within that objective, the entity may monitor different risk dimensions (e.g., IR delta and IR vega) provided the documentation specifies the measures used and the approach prevents double counting of underlying exposures/capacity.

Accordingly, the ED could include a clarification along the following lines:

"An entity may specify in its risk mitigation objective more than one interest-rate risk dimension that it manages within the same overarching measurement approach (for example, different dimensions of an economic value measure), provided it identifies the measures used for each dimension and applies the model in a manner that avoids double counting of underlying exposures, including in capacity assessments."

In addition, to keep the mechanics auditable, the Exposure Draft should clarify that:

- The lower-of-test and RMA adjustment are applied to the combined fair value movement of the designated derivative(s) within the documented risk mitigation objective; and
- The benchmark derivative(s) should be constructed to reflect the relevant risk factors specified in the objective, rather than requiring a decomposition of the designated derivatives into intrinsic and time value components.

This avoids forcing an artificial split of a single derivative's fair value movement across multiple models.

This is particularly important where option-based hedging instruments used for the non-linear layer also generate delta sensitivity. In such cases, the accounting model should remain capable of assessing the benchmark derivatives and designated derivatives on a combined basis consistent with the documented objective, rather than requiring isolated measurement of components that are managed together in practice.

Non-linear interest rate risk examples

Simple example (IR delta layer plus IR vega layer)

Facts (illustrative):

A bank manages the interest rate risk of a fixed-rate mortgage portfolio under an economic value approach. The portfolio includes material prepayment optionality. The bank:

- Manages linear repricing (IR delta) risk using interest rate swaps; and
- Manages the additional non-linear risk (IR vega) arising from prepayment optionality using purchased swaptions.

Risk mitigation objective (documented):

The risk mitigation objective specifies that the bank mitigates:

- The benchmark-rate-driven economic value sensitivity of the portfolio (delta dimension); and
- The volatility-driven economic value sensitivity associated with embedded optionality (vega dimension), both within the same overarching economic value measurement approach, using separate measures for the two dimensions.

Designated derivatives:

- A set of interest rate swaps designated to mitigate the delta dimension; and
- A set of purchased swaptions designated to mitigate the vega dimension.

Benchmark derivatives:

- For the delta dimension, benchmark swaps are constructed consistent with the repricing profile and calibrated in line with the model's calibration principles.
- For the vega dimension, benchmark swaptions are constructed to reflect:
 - The relevant option characteristics (e.g., exercise date aligned to the period over which optionality is managed);
 - Observable market inputs (forward rates and implied volatility surface) consistent with the entity's strategy; and
 - An initial premium where inherent to the benchmark swaption.

Measurement and RMA adjustment (high level):

- The entity measures the cumulative fair value changes of the designated derivatives.
- The entity measures the cumulative fair value changes of the benchmark derivatives attributable to the risk factors specified in the risk mitigation objective (benchmark rates for the delta dimension; market-implied volatility parameters and related observable option inputs for the vega dimension).
- The RMA adjustment is determined through the lower-of mechanism, applied in a way that is consistent with the documented objective and does not

require splitting a single designated derivative into multiple accounting components.

Amortisation/recycling (high level):

- Any amount recognised through the RMA adjustment that is attributable to option premia/time value effects is unwound to profit or loss systematically over the period that the risk mitigation objective is achieved (e.g., to the option exercise date or the period of coverage), consistent with the pattern applied for linear strategies, and without introducing one-off outcomes at expiry.
- If the benchmark swaption expires out-of-the-money, the benchmark swaption's premium-related balance is fully amortised to the expiry date in line with the systematic unwinding approach.
- If the benchmark swaption is in-the-money at expiry, the accounting reflects continuation of the hedging relationship consistent with the objective (e.g., by treating the exercised position as the continuation of the benchmark derivative exposure), while maintaining the systematic unwinding principle.

This example demonstrates that option-based benchmark derivatives can be used without converting the model into a full fair value model of underlying portfolios, provided the benchmark derivative construction and the unwinding mechanics are explicitly clarified.

Scaled example (portfolio-level application and operability)

Facts (illustrative):

The following example uses a theoretical banking book portfolio comprising a replenished schedule of cash flows against a modelled deposit portfolio. The purpose of the example is to demonstrate, at portfolio level, how the same underlying cash flows can give rise to distinct but related interest-rate risk dimensions and how those dimensions may be represented within one overarching risk mitigation framework. The illustrative portfolio is assumed to contain behavioural optionality, reflecting the fact that customer behaviour may change as interest rates move, including through changes in deposit stability and migration into alternative products.

The example therefore distinguishes between:

- (i) linear interest-rate risk, represented by the sensitivity of portfolio value to a small parallel movement in benchmark rates; and
- (ii) non-linear risk, represented by the sensitivity of portfolio value to changes in implied volatility and the resulting change in the value of optionality embedded in the portfolio.

The objective is not to suggest that these risks arise from different underlying positions, but rather to show that the same underlying portfolio may need to be analysed through separate risk lenses to reflect how it is managed in practice. This example uses IR Vega as the worked example for non-linear risk, while the underlying logic may also be relevant to other non-linear interest-rate risk dimensions.

Application considerations:

The illustration below is structured to show, side by side, the two risk components arising from the same portfolio. The left-hand side shows the linear interest-rate sensitivity (IR Delta). This represents the change in the discounted present value of the portfolio's future cash flows for a one basis point movement in the yield curve and corresponds to the standard first-order repricing sensitivity typically measured for interest-rate risk management purposes. The right-hand side shows the non-linear sensitivity (IR Vega). This represents the change in portfolio value for a one basis point movement in implied volatility and is intended to capture the effect of embedded optionality that cannot be explained by a linear repricing measure alone.

- IR Delta **€83.8m** → demonstrates the proportionate (linear) relationship between a 1 basis point curve shift and the (discounted) present value of future cash flows
- IR Vega **€64.1m** → Bachelier valuation approach followed, to illustrate how non-linear risk is derived. See a summary of the IR Vega calculation approach below:
 - A normal distribution of future rates has been assumed around the current forward rate (for each tenor and notional). The width of distribution (uncertainty) is determined by implied volatility.
 - The normal density function (in Excel) is used to determine how relevant the assigned strike is within the plotted rate path. The more relevant the strike, the more sensitive the portfolio is to implied volatility shifts.
 - The implied volatility has then been bumped by 1 basis point, to see how much the portfolio value changes (to measure how "alive" the portfolio is to changes in uncertainty).
 - IR Vega is the result of the above.

As a result, the Excel table supporting the IR vega illustration is designed to isolate the non-linear component by reference to a simplified option-pricing framework. The table uses, for each relevant tenor or notional segment, a set of observable or model-derived inputs including the assumed strike, the relevant forward or spot rate, implied volatility expressed in basis points, time to exercise, time to maturity and the relevant exposure profile. These inputs are then used to derive the sensitivity of the portfolio to a change in implied volatility, independently of the linear delta measure. In this way, the table is not intended merely as a valuation output, but as a structured representation of the variables that would need to be considered in constructing a benchmark derivative for the non-linear layer.

WA maturity NMD: 7.55		Yrs															
91		Months															
27/02/2026				8-year duration (weighted average capacity)				27-Feb	27-Feb	D2	F2	E2					
								C2	B2	Mid rate		1% rate move		Mid point			
Months	Tenor	IR Delta €	Notional €bn	Exercise	Start	Maturity	Strike	Spot	Imp. Vol (Bps)	Ann. Vol	TT Exercise	TT Maturity	Avg time	IR Vega €			
1	1M	84,249	5	27/03/2026	27/03/2026	27/09/2033	0.025	0.020	0.0043	7.03	0.08	7.69	3.89	87			
2	2M	69,837	3	27/04/2026	27/04/2026	27/10/2033	0.025	0.020	0.0042	7.02	0.17	7.78	3.97	3,546			
3	3M	158,935	3	27/05/2026	27/05/2026	27/11/2033	0.026	0.020	0.0043	7.01	0.25	7.86	4.06	23,581			
6	6M	323,773	4	27/08/2026	27/08/2026	27/02/2034	0.026	0.020	0.0047	6.98	0.50	8.12	4.31	212,742			
9	9M	374,481	4	27/11/2026	27/11/2026	27/05/2034	0.026	0.021	0.0050	6.92	0.75	8.36	4.56	444,448			
12	12M	595,578	4	27/02/2027	27/02/2027	27/08/2034	0.026	0.021	0.0052	6.89	1.00	8.62	4.81	628,563			
18	18M	1,371,311	7	27/08/2027	27/08/2027	27/02/2035	0.027	0.021	0.0054	6.82	1.50	9.13	5.32	1,514,883			
24.00	2Y	2,498,442	9	27/02/2028	27/02/2028	27/08/2035	0.028	0.022	0.0056	6.72	2.00	9.63	5.82	2,398,111			
36.00	3Y	4,173,344	11	27/02/2029	27/02/2029	27/08/2036	0.029	0.025	0.0058	6.43	3.00	10.65	6.83	4,444,459			
48.00	4Y	6,136,416	13	27/02/2030	27/02/2030	27/08/2037	0.030	0.023	0.0060	6.39	4.00	11.66	7.83	5,460,227			
60.00	5Y	7,146,563	13	27/02/2031	27/02/2031	27/08/2038	0.031	0.024	0.0062	6.21	5.00	12.68	8.84	5,987,414			
72.00	6Y	8,020,014	12	27/02/2032	27/02/2032	27/08/2039	0.032	0.025	0.0062	6.04	6.00	13.69	9.85	6,316,223			
84.00	7Y	9,457,961	13	27/02/2033	27/02/2033	27/08/2040	0.033	0.025	0.0063	5.87	7.00	14.71	10.85	7,040,830			
96.00	8Y	10,651,350	13	27/02/2034	27/02/2034	27/08/2041	0.034	0.026	0.0063	5.69	8.00	15.72	11.86	7,517,666			
108.00	9Y	12,265,404	14	27/02/2035	27/02/2035	27/08/2042	0.034	0.026	0.0063	5.56	9.00	16.74	12.87	8,191,137			
120.00	10Y	8,349,879	9	27/02/2036	27/02/2036	27/08/2043	0.034	0.027	0.0064	5.33	10.00	17.75	13.88	8,553,478			
144.00	12Y	7,427,317	8	27/02/2038	27/02/2038	27/08/2045	0.034	0.027	0.0063	5.07	12.00	19.78	15.89	9,518,414			
180.00	15Y	4,983,376	5	27/02/2041	27/02/2041	27/08/2048	0.033	0.028	0.0062	4.59	15.00	22.83	18.91	3,530,348			
240.00	20Y	(263,640)	(0)											64,086,159			
83,824,589				147													



Deposit Vega prototype - RMA pa

Conceptually, the calculation assumes a probability distribution of future interest-rate outcomes around the relevant current forward rate. In the simplified illustration, that distribution is represented using a normal-distribution framework. The width of the distribution reflects uncertainty and is driven principally by implied volatility and time. A wider distribution implies a greater range of plausible future rate outcomes and therefore a greater sensitivity of option value to changes in volatility; a narrower distribution implies lower uncertainty and therefore lower IR vega sensitivity. This provides a practical way to explain, at portfolio level, why non-linear risk may be economically significant even where the underlying cash flows themselves are unchanged.

Within this framework, the position of the strike relative to the distribution of future rates is a key driver of the measured IR vega. Where the strike is close to the centre of the distribution, the option is closer to at-the-money, and the portfolio exhibits greater sensitivity to changes in implied volatility. Where the strike is materially away from the centre of the distribution, the option is further in- or out-of-the-money and the IR vega sensitivity is correspondingly lower. The illustration therefore shows not only that non-linear risk exists, but also why the amount of measured IR vega depends on the interaction between the assumed strike, the current forward-rate environment and the volatility assumption.

The sample is deliberately constructed so that the delta and IR vega measures can be read together. The delta measure explains the first-order value effect of changes in benchmark rates on the portfolio's discounted cash flows. The IR vega measure explains the additional value effect arising from changes in uncertainty around future rates, which is relevant where the portfolio contains embedded or explicit optionality. The two measures therefore address different components of the same overall risk profile and should be understood as complementary rather than competing descriptions of risk.

From an operability perspective, the example also illustrates how a benchmark derivative could be constructed for the non-linear layer. The same core variables used in the table - strike, forward or spot rate, implied volatility, exercise profile, maturity profile and exposure amount - would form the basis for calibrating a benchmark option-based derivative. If the designated amount of optionality being hedged changes over time, the benchmark derivative for that layer would need to be updated consistently by reference

to the relevant exposure amount and the applicable market inputs. This shows, at least at a simplified level, that a benchmark derivative for a non-linear layer can be specified using the same discipline applied to the linear layer, even though the relevant risk factors are different.

The illustration also highlights that the benchmark derivative for the non-linear layer should not exceed the available non-linear exposure being managed. In other words, the amount designated for the IR vega layer remains constrained by the underlying non-linear risk present in the portfolio. This is important both conceptually and operationally: it preserves the link between the benchmark derivative and the underlying exposure, and it avoids overstating the amount of risk mitigation represented in the accounting model.

Finally, the example should be read as an analytical decomposition of risk within a single portfolio-level risk management view. In practice, option-based hedging instruments used to mitigate non-linear risk may themselves generate delta sensitivity, which may be offset or adjusted through linear instruments as part of the overall hedging strategy. The example does not seek to model the full lifecycle of such dynamic adjustments. Its purpose is more limited: to demonstrate that, where the same underlying portfolio gives rise to both linear and non-linear interest-rate risk, those risk dimensions can be identified separately, measured using distinct but related inputs, and represented coherently within a scaled portfolio-level application.

Conclusion:

The example illustrates that a movement in benchmark rates has both a linear and non-linear impact on our portfolio (both material). The non-linear impact increases with higher implied volatility (the bell curve width is due to both macro-economic and contract specific features).

If swaption contracts are to be used to hedge deposits (and mortgages), then it must be permissible to model both IR Delta and IR Vega risks under RMA. The same underlying cash flows give rise to different risks, and both must be assessed under RMA (via separate risk layers / models).

The intrinsic value of the swaption can be bifurcated and measured in the RMA IR Delta layer, and the residual fair value move (time value) can be assigned to the IR Vega layer. This would require the construction of two benchmark derivatives (one for each risk type). This can be done as demonstrated in the above example (different risk sensitivities have been carved out for the same portfolio).

Operability concerns

The following concerns arise if the ED is not clarified to accommodate non-linear risk dimensions:

1. **Ambiguity of eligible risk exposure (delta-only framing)**

The definition of repricing risk and the benchmark-rate framing can be read as restricting the model to delta repricing risk only. This creates the risk that options and swaptions are viewed as eligible instruments, but only for their delta effects, which would not reflect why banks use them for embedded optionality.

2. **Benchmark derivative calibration and (upfront) option premia**

A universal requirement for benchmark derivatives to be constructed with a zero starting value may not be compatible with purchased option strategies where the instruments include upfront premium and where the premium is an essential economic feature. Without explicit permission for option-based benchmark derivatives to include an initial premium calibrated using observable inputs, the model may limit the operability for non-linear interest rate strategies.

3. **Specification of mitigated element for non-linear risk**

Without a broader "mitigated risk factor" concept, it is unclear how to define what is being mitigated for non-linear interest rate strategies (e.g., which volatility parameters or surface slices are in scope), and therefore unclear how benchmark derivatives should be measured and what is included in the lower-of mechanism.

4. **Capacity and double counting across risk dimensions**

Where an entity manages multiple risk dimensions within the same portfolios, the model must avoid using the same underlying capacity more than once. Without explicit guidance/clarification, there is a risk of either double counting exposures or constraining entities to artificially separate portfolios in a manner that is inconsistent with risk management and not operationally feasible.

5. **Unit of account and derivative splitting**

Requiring a decomposition of a single option's fair value movement into multiple components for separate accounting models (e.g., intrinsic vs time value assigned to different models) is not operationally robust and can undermine auditability. A workable approach should allow the designated derivative to be treated as one unit of account within the documented objective.

6. **Interaction between non-linear hedges and linear sensitivity**

Option-based instruments used to mitigate non-linear risk will typically generate delta sensitivity as well. In practice, this may require offsetting or rebalancing through linear instruments so that the overall hedge profile remains aligned to the risk management objective. Without acknowledging this interaction, the model may appear simpler than the underlying economics and may not reflect how such strategies are managed in practice.

7. **Unwinding / amortisation and P&L effects (including expiry outcomes)**

The ED does not sufficiently articulate how amortisation / recycling works when option premia and time value changes are present. Without clarification, entities may face inconsistent practices and unintended P&L volatility (e.g., one-off effects at expiry). A systematic unwinding approach to profit or loss - aligned to the period of coverage and consistent with the documented objective - should be explicitly permitted.

8. **Transition or cutover effects for existing option portfolios**

Where entities enter the model with pre-existing option positions, the interaction between legacy premium amounts, benchmark derivative calibration and subsequent lower-of testing may require further clarification to avoid non-economic

transition effects. This is particularly relevant where pre-existing option premia could otherwise distort the accounting outcome for the non-linear layer at the point the model is first applied.

9. Exercise/settlement mechanics and continuation

If a swaption is exercised (or cash settled), the model should allow continuation consistent with the risk mitigation objective rather than creating artificial discontinuities between the option phase and the subsequent exposure (e.g., the underlying swap exposure that economically results from exercise).

Overall conclusion

The ED provides limited explicit support for incorporating non-linear interest rate risk dimensions - such as IR vega - into risk mitigation accounting, even though it includes options and swaptions among eligible designated derivatives. The current scope framing, definitions and benchmark derivative mechanics can be interpreted as being anchored to delta repricing risk only, creating practical barriers to reflecting how banks manage embedded optionality in banking book portfolios.

Viewed at a high level, the model can be understood as capable of accommodating non-linear interest-rate risk within a principles-based framework. The more acute issue is whether the current drafting provides a sufficiently clear and operable basis for doing so in practice, especially where option-based benchmark derivatives, non-zero upfront premia and lower-of-testing need to be applied in a consistent and auditable manner.

A small set of targeted clarifications would make the model operable without changing its principles-based nature:

- Broaden scope to “eligible interest-rate risk exposures” (including non-linear and basis-related dimensions when separately managed);
- Redefine “mitigated rate” as “mitigated risk factor” to encompass observable volatility parameters where relevant;
- Explicitly permit option-based benchmark derivatives and allow upfront premia when inherent; and
- Clarify how capacity, lower-of-testing and systematic unwinding apply when non-linear strategies are included, without requiring impractical splitting of derivatives into multiple accounting models.

These changes would improve clarity, comparability and auditability while enabling the model to reflect established risk management practices for non-linear interest rate risk.

Appendix/Supporting documentation

Staff Paper July 2023:



2023 07

Designated-derivative

WG9 I OVERHEDGE VS UNDERHEDGE BENCHMARK DERIVATIVES USING (CUMULATIVE) PV01 MEASURE TO QUANTIFY NRRE PER TIME BUCKET

Information sheet

		<i>Title</i>	WG9 I OVERHEDGE VS UNDERHEDGE BENCHMARK DERIVATIVES USING (CUMULATIVE) PV01 MEASURE TO QUANTIFY NRRE PER TIME BUCKET
		<i>Paper writer</i>	EBF Hedge Accounting Workgroup
		<i>Type of paper</i>	Fatal flaw: request/demand for change
(21)	Interpretation/clarification		
(22)	Fatal flaw: request/demand for change		
		<i>Adjustment required for RMA?</i>	Yes
		<i>Conceptual issue?</i>	Yes
		<i>RAG¹¹</i>	

¹¹ Please refer to the latest version of the document “Definition of Traffic Light Colouring/System” for the corresponding definition of the traffic light system applied

Contents

Introduction	186
Background	186
Regulation.....	188
Application law and articles (accounting and/or regulatory)	188
Paragraphs on IFRS over-hedging.....	188
Regulatory paragraphs	189
Proposed treatment.....	192
Examples	194
Unintended consequences (RMA artifact error)	194
Simple example: Underlying maturities in a time bucket	194
One BD on maturity time bucket itself.....	194
Multiple BD (copy DD*-1) per time bucket.....	196
Using a cumulative profile	198
IR stress results	200
Operability concerns	201
Conclusion.....	202
Required change	203
Appendix/Supporting documentation	205
EFRAG outreach findings	205

Introduction

This paper analyses a fundamental conceptual issue in the Exposure Draft Risk Mitigation Accounting (RMA) related to the treatment of over- and under-hedging at individual repricing time-bucket level. While the RMA model aims to better reflect dynamic interest rate risk management, the prohibition of “over-hedging” per repricing time bucket introduces accounting outcomes that are inconsistent with how interest rate risk in the banking book (IRRBB) is managed, measured, and supervised in practice.

The issue identified is not one of operability or calibration, but one of IRRBB misalignment. The RMA model introduces bucket-level restrictions that do not exist in IRRBB, leading to accounting volatility that does not reflect economic risk. This volatility arises even where the institution’s combined net interest rate exposure remains within approved risk appetite and prudential limits. Any accounting model for interest rate risk in the banking book that contradicts IRRBB necessarily misrepresents economic risk.

The withdrawal of IAS 39 hedge accounting does not create this issue but rather exposes a latent misalignment between accounting requirements and established IRRBB-based risk management practices.

The issue analysed in this paper is not caused by the use of repricing buckets, PV01 measurement, or benchmark derivative construction. It is caused by the introduction of the concept of “over hedging” at repricing time bucket level—a concept that does not exist in IRRBB risk management, supervision, or internal limit frameworks. Once such a concept is introduced, unintended and non-intuitive accounting outcomes arise by construction, even in the absence of any economic risk.

Background

The IASB published the Exposure Draft on Risk Mitigation Accounting on 3 December 2025 and invited stakeholders to provide feedback on the proposed requirements. To support the development of a robust, evidence-based comment letter, the banking industry decided to perform a field test of the RMA requirements. The deadline for submitting the comment letter is aligned with the IASB’s fieldwork submission deadline, with both submissions due by 30 November 2026.

The banking industry sees some major challenges/issues concerning inconsistent treatment in accounting for over and under hedges what is essentially the same situation in risk management. Especially the RMA requirements to measure the Net Repricing Risk Exposure (per time bucket) and determine the Risk Mitigation Objective are a concern. In the requirements it is stated that there is no ‘over’ hedge allowed in any time bucket.

Additionally, when a PV01 measure is used as a measurement, there are several issues when constructing benchmark derivatives to mitigate the accounting mismatch and/or representing risk management. This paper addresses the concerns and introduces a potential alternative.

In practice, banks manage interest rate risk by reference to the combined net position of assets, liabilities and derivatives, subject to risk limits and stress tests under IRRBB. Small mismatches across repricing buckets are an unavoidable consequence of portfolio dynamics, roll down, interpolation and optimisation decisions, and are economically meaningful only in aggregate. RMA’s bucket specific restrictions therefore introduce an accounting view of risk that diverges from risk management reality.

In practice, risk management does not analyse risk by decomposing positions into “NRRE” and “designated derivatives”, nor by classifying positions as over- or under-hedged within time buckets. These distinctions are purely accounting constructs without an IRRBB analogue.

Regulation

Application law and articles (accounting and/or regulatory)

In the exposure draft (ED) on Risk Mitigation Accounting (RMA), there are several paragraphs referring to the requirement to exclude derivatives from the model where there is an IFRS over-hedge of risk vs allow inclusion in the model where there is a perfect hedge or an under-hedge of the same risk.

Paragraphs on IFRS over-hedging

- ED 7.4.1 An entity shall specify a risk mitigation objective that is consistent with the amount of repricing risk the entity mitigates using designated derivatives. However, the specified risk mitigation objective shall not exceed the amount of net repricing risk exposure in any repricing time band.

- ED B7.4.3 The risk mitigation objective is a matter of fact and not merely an assertion. It is observable through the activities an entity undertakes to manage repricing risk on a net basis by transferring the risk to entities external to the reporting entity. In other words, the risk mitigation objective is required to be evidenced by the designated derivatives an entity uses to mitigate repricing risk. For example, if an entity with a net repricing risk exposure of 100 units uses designated derivatives that mitigate 80 units of repricing risk, the entity is required to specify a risk mitigation objective of 80 units. The entity cannot specify a risk mitigation objective of 70 units or 90 units, because that would be inconsistent with the risk management activities the entity undertakes to mitigate repricing risk. Nor can the entity specify a risk mitigation objective of 110 units, because that would exceed the net repricing risk exposure. Even if the entity has designated derivatives that mitigate more than 100 units of repricing risk, the risk mitigation objective is limited to 100 units (the net repricing risk exposure).

- ED B7.4.5 In accordance with paragraph 7.4.1, the risk mitigation objective cannot exceed the net repricing risk exposure in any repricing time band. An entity is not required to apply the requirements in paragraph 7.2.10 to determine an updated net repricing risk exposure before specifying a new risk mitigation objective. However, an entity must consider reasonable and supportable information—available at the date the entity specifies a new risk mitigation objective—about changes to the underlying portfolios that might have occurred since the entity last determined the net repricing risk exposure. For this purpose, an entity is not required to undertake an exhaustive search for information; instead, it is required to consider all reasonable and supportable information that is relevant to the assessment of the net repricing risk exposure.

- ED 7.4.7 The entity shall use reasonable and supportable information to adjust the benchmark derivatives to ensure that the exposure to repricing risk represented by the benchmark derivatives does not exceed the net repricing risk exposure in any repricing time band.

- ED BC78 Stakeholders have said that when managing repricing risk on a net basis, their objective is to achieve a residual exposure to repricing risk that is

within their risk limits. However, they do not aim to achieve a particular risk exposure consistently from one period to the next and their target exposure changes frequently based on various factors.

ED BC79 The IASB therefore decided to define the risk mitigation objective as the amount of repricing risk an entity intends to mitigate by using derivatives. However, to ensure that risk mitigation accounting is robust, the IASB decided to require that the risk mitigation objective:

- (a) aims to mitigate the net repricing risk exposure to an amount that is within the risk limits set out in the entity's risk management strategy;
- (b) is evidenced by the amount of repricing risk the entity intends to mitigate by using designated derivatives; and
- (c) does not exceed the amount of net repricing risk exposure available in a repricing time band.

ED BC80 In the IASB's view, these requirements related to the risk mitigation objective will ensure that risk mitigation accounting faithfully represents the extent to which designated derivatives mitigate repricing risk. Otherwise, the derivatives may create repricing risk the entity would not be exposed to based on its underlying portfolios.

ED IE207

IE207 Entity G specifies a risk mitigation objective that:

- (a) is consistent with the amount of repricing risk it mitigates using designated derivatives; and
- (b) does not exceed the amount of net repricing risk exposure in each repricing time band.

Risk mitigation objective	20X1 CU (million)	20X2 CU (million)	20X3 CU (million)	20X4 CU (million)	20X5 CU (million)
Fixed-rate exposures	1,200	1,300	1,500	1,000	1,000
Variable-rate exposures	(1,200)	(1,300)	(1,500)	(1,000)	(1,000)

Critique: Internal inconsistency in the IFRS over hedge restriction

The RMA requirements prohibit derivatives from creating repricing risk beyond the NRRE. However, under IRRBB, assets, liabilities and derivatives are equally recognised as sources of repricing risk. Treating derivatives as uniquely capable of creating impermissible risk is inconsistent with both prudential frameworks and internal risk management, where a derivative originated risk is economically indistinguishable from a balance sheet originated risk.

Regulatory paragraphs

The Basel IRRBB framework represents the authoritative prudential approach to identifying, measuring and managing interest rate risk in the banking book. Under IRRBB,

risk is assessed based on the combined net position of assets, liabilities and derivatives. The framework does not distinguish between risk originating from underlying balance sheet items and risk originating from hedging instruments, nor does it recognise concepts such as “over-hedging” or “under-hedging” at repricing bucket level.

Supervisory review process, SRP 31 IRRBB (effective 1 Jan 2026)

[..] describes requirements on assessing interest rate risk in the banking book, i.e. the current or prospective risk to a bank's capital and to its earnings, arising from the impact of adverse movements in interest rates on its banking book. Due to the heterogeneous nature of this risk, it is captured in Pillar 2.

Basel Framework – SRP31.1

Interest rate risk in the banking book (IRRBB) refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions. When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of a bank's assets, liabilities and off-balance sheet items and hence its economic value. Changes in interest rates also affect a bank's earnings by altering interest rate-sensitive income and expenses, affecting its net interest income (NII). Excessive IRRBB can pose a significant threat to a bank's current capital base and/or future earnings if not managed appropriately. A more detailed description of IRRBB and its management techniques can be found in [SRP98](#).

Basel Framework – SRP31.2

Three main sub-types of IRRBB are defined for the purposes of this chapter. All three sub-types of IRRBB potentially change the price/value or earnings/costs of interest rate-sensitive assets, liabilities and/or off-balance sheet items in a way, or at a time, which can adversely affect a bank's financial condition.

- (1) Gap risk arises from the term structure of banking book instruments and describes the risk arising from the timing of instruments' rate changes. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).
- (2) Basis risk describes the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices.
- (3) Option risk arises from option derivative positions or from optional elements embedded in a bank's assets, liabilities and/or off-balance sheet items, where the bank or its customer can alter the level and timing of their cash flows. Option risk can be further characterised into automatic option risk and behavioural option risk.

BCBS 368 – paragraph 114 (Standardised framework)

Banks must calculate the change in economic value of equity under a set of prescribed interest rate shock scenarios.

BCBS 368 – paragraph 115

The six prescribed interest rate shock scenarios are:

- parallel up
- parallel down
- steepener
- flattener
- short rates up
- short rates down

BCBS 368 – paragraph 131

Supervisors should identify outlier banks where the decline in economic value of equity exceeds 15% of Tier 1 capital.

Accordingly, any accounting model that distinguishes between acceptable under hedging and unacceptable over hedging at repricing bucket level contradicts IRRBB by construction.

Proposed treatment

In addition to requirements for the combined derivative and NRRE exposure to remain within the risk appetite (limits) or the institution, the paragraphs in the ED RMA clearly do not permit a Risk management Objective and therefore a benchmark derivative position to be included in RMA where this exceeds the re-pricing risk of the NRRE in any time band. This is the so-called IFRS over-hedge. In such cases the RMO and benchmark derivative will deviate from the designated derivative in the time band.

Example

10-year bucket PV01 shown (present value per basis point or IR delta)

NRRE = +5.5m

RMO/BD = -5.5m

DD = -10.5m (external)

ALCO-approved NII optimization position = +/- 5m

Unresolved PVBP risk = -5m (from ALCO approved NII optimization within IRRBB risk appetite and limits)

The RMA requirements state that the RMO cannot be higher than the NRRE in any time bucket. This is to ensure that the RMA represents the extent to which the Designated Derivatives (DD) mitigate repricing risk. The restriction on 'over' hedging per time bucket results in an RMA result that does not represent actual risk management nor mitigates the accounting volatility in an acceptable manner. As long as risk mitigation objectives are constrained at individual bucket level, no benchmark derivative design can preserve alignment with risk management. Additionally, over hedge is pure an accounting concept, risk management does not look at NRRE and DD gross. The combined position is managed and needs to maintain within the define limits, i.e. for risk management you would never see such an over hedge.

Clarification on outright risk and over-hedging

An important inconsistency arises in the treatment of outright interest rate risk. Under IRRBB, outright risk positions are explicitly permitted provided they are approved, monitored and remain within established risk appetite and stress limits. IRRBB does not differentiate between risk arising from under hedging liabilities, over hedging assets, or deliberate balance sheet positioning; it assesses only the combined net exposure. Under RMA, however, an outright risk position that would be acceptable under IRRBB may become ineligible or distorted solely because its representation requires over hedging within one or more repricing time buckets.

As a result, identical economic risk positions can be treated differently under RMA depending not on their risk magnitude, for example the desired risk position can be achieved by under-hedging liabilities position or over-hedging assets within individual repricing buckets.

The NRRE in the example below can consist of - 5 and + 10.5 exposure. Not hedging (under-hedging) the gross -5 exposure results in identical risk position (over-hedge) of the net position. Depending on if the asset and liability are in the same defined time bucket, there is an over or under-hedge (per time bucket) and therefore a different RMA result with a near-identical economic position.

<i>PV01</i>	Mat 30-06-202X	Mat 01-07-202X	Total
<i>NRRE</i>	-5.0	+10.5	+5.5
<i>DD</i>		-10.5	-10.5
<i>BD</i>		+10.5	+10.5

Whether this position is classified as an over-hedge or under-hedge depends upon how repricing buckets are defined (e.g. whether a one-day maturity difference falls inside or outside a cut-off). This arbitrariness results in different accounting outcomes for identical economic risk.

Examples

Unintended consequences (RMA artifact error)

The following example is not an edge case. It represents a simple, realistic and unavoidable situation that demonstrates a fatal flaw in the RMA model.

Within IRRBB the concept of an 'RMA over-hedge' simply doesn't exist. A risk exposure within limits is allowed regardless of if it originated from a client loan or a payer swap (or vice versa for deposits and receiver swaps). Introducing this over-hedge concept into RMA where it doesn't exist in IRRBB results in an unintended and potentially material consequence under the following quite reasonable operating circumstances:

If an entity hedges a 10-year asset exposure fully in one book for a certain mitigation rate but doesn't hedge an offsetting 10-year liability in another book for the same mitigation rate, the following situation will arise in the RMA model for that mitigation rate.

PV01 profile

NRRE Assets	-10 risk units
NRRE Liabilities	+10 risk units
Total NRRE	0 risk units
BD asset hedge	10 risk units (payer)

Artificial "Over-hedge" to be corrected by a BD entry of 10 risk units (receiver)

The external hedging derivative (payer) doesn't qualify for RMA and becomes a trading derivative. Should interest rates exceptionally fall by 100 basis points, then the non-RMA eligible (now trading) derivative will decline in value by circa 1000 units. This artificial volatility is an RMA artifact and doesn't align with risk management.

Simple example: Underlying maturities in a time bucket

Many entities use a PV01 measure to quantify NRRE and DD per time bucket. The underlying portfolios typically consist of millions of individual exposures allocated to the time buckets based on the repricing risk. The time can be defined in line with the tenors of the interest rate curves. Some banks use an interpolation method to allocate PV01 profiles to defined maturity buckets in line with the tenors of the curve/benchmark rate. If such an interpolation method is used, one individual exposure is allocated to 2 time buckets, when the maturity is between 2 time buckets. Even when the PV01 profile per defined tenor / time bucket of the DD exactly matches the PV01 of the NRRE, the repricing dates of the NRRE and DD do not necessarily match. With the passage of time this will result in under and over-hedges per time bucket, within risk limits (per time bucket). When the BD PV01 profile again has a different repricing risk/PV01 profile, this will result in an RMA result that does not represent risk management nor mitigates the accounting mismatch. We will elaborate on the issues and RMA results with the below examples.

One BD on maturity time bucket itself

For risk management the all the NRRE and DD PV01s are plotted to the tenors of the curve, and you only see 13, 15, 20 and 25 in the risk report. However, the underlying exposures of course do not exactly match but are allocated based on a (in this example linear) interpolation method to the tenors defined by the curve. In the simplified example below,

the NRRE and DD maturities and PV01 do exactly match. However, the BD are constructed with maturity dates exactly matching the curve, to match the PV01 in the defined time buckets (only). Even when the PV01 profile matches the NRRE and DD PV01 profile at $t=0$, a period further in time this BD do not match anymore and result in under and over-hedges in time buckets.

Time buckets 1-12 and after 15 20 25)				BD in time buckets only (no over and under hedges)								
Limit +/-5												
Year	12	14	15	16.5	17.5	9	20	21.5	22.5	24	25	Total
NRRE					-2.0		-10.0		-3.0			-15.0
DD					2.0		10.0		3.0			15.0
NRRE allocation			-1.0				-12.5				-1.5	-15.0
DD allocation			1.0				12.5				1.5	15.0
BD start			-1.0				-12.5				-1.5	-15.0
BD allocation			-1.0				-12.5				-1.5	-15.0
BD correction 'over-hedge'			0.0				0.0				0.0	0.0
Total BD			-1.0				-12.5				-1.5	-15.0
NRRE - DD	0		0				0				0	0
BD-DD	0		0				0				0	0

1 period further in time (simplified no change PV01)

Year	12	14	15	16.5	17.5	9	20	21.5	22.5	24	25	Total
NRRE				-2.0		-10.0		-3.0				-15.0
DD				2.0		10.0		3.0				15.0
NRRE allocation			-3.4				-10.7				-0.9	-15.0
DD allocation			3.4				10.7				0.9	15.0
BD start		-1.0				-12.5				-1.5		-15.0
BD allocation	-0.3		-3.2				-10.3				-1.2	-15.0
BD correction 'over-hedge'	0.3										0.3	0.6
Total BD			-3.2				-10.3				-0.9	-14.4
NRRE - DD	0		0				0				0	0
BD-DD	0		0.23				0.4				0	0.63

This simplified example, illustrates that without any (unexpected) changes in NRRE and DD the PV01 of the BD is not identical anymore at $T=1$, when the BD do not exactly match the DD ($BD \neq DD \cdot -1$).

In fact, there is an over-hedge of -0.3 in the 25-year and 12-year bucket and under hedges in the 20 year (0.4) and in the 15-year time bucket (0.23).

Question is how when and how to adjust the BD in the 12 and 25-year time bucket, as at $t=0$ there is no over hedge and no external (DD) are trades to evidence the construction of a new BD. But given the requirements the BD needs to be adjusted, calibrated at $t=0$ the BD needs to be adjusted with 0.3 in both buckets. This results in a total 'outright' PV01 of 0.63 for RMA while there is no economic risk position.

Let's consider under and over hedges per time bucket, hedging 22.5 year partly with a 21.5-year derivative (same PV01 in different bucket). Once there are already mismatches in repricing periods between the NRRE and DD, resulting in under and over-hedges, the

construction of BD with the requirement of no over hedges per time bucket results in even more diversion between risk management and RMA, and accounting volatility.

Time buckets 1-12 annually after 15 20 25)

BD in time buckets only (over and under hedges)

Limit +/-5

Year	12	14	15	16.5	17.5	9	20	21.5	22.5	24	25	Total
NRRE					-2.0		-10.0		-3.0			-15.0
DD					2.0		10.0	1.0	2.0			15.0
NRRE allocation			-1.0				-12.5				-1.5	-15.0
DD allocation			1.0				12.7				1.3	15.0
BD start			-1.0				-12.7				-1.3	-15.0
BD allocation			-1.0				-12.7				-1.3	-15.0
BD correction 'over-hedge'							0.2					0.2
Total BD			-1.0				-12.5				-1.3	-14.8
NRRE - DD	0		0				0.2				-0.2	0
BD-DD	0		0				0.2				0	0.2

1 year further in time (simplified no change PV01)

Year	12	14	15	16.5	17.5	9	20	21.5	22.5	24	25	Total
NRRE				-2.0		-10.0		-3.0				-15.0
DD				2.0		10.0	1.0	2.0				15.0
NRRE allocation			-3.4				-10.7				-0.9	-15.0
DD allocation			3.4				11.0				0.6	15.0
BD start		-1.0				-12.5				-1.3		-14.8
BD allocation	-0.3		-3.2				-10.3				-1.0	-14.8
BD correction 'over-hedge'	0.3										0.1	0.4
Total BD			-3.2				-10.3				-0.9	-14.4
NRRE - DD	0		0				0.3				-0.3	0
BD-DD	0		0.23				0.74				-0.3	0.63

At t=0 there is already an outright PV01 of 0.2, while there is only a under and over hedge in adjacent time buckets. At t=1, the outright PV01 is even larger. With a linear shift in curve there is an equal opposite impact (risk) in the 20- and 25-year buckets, there is an RMA result of the outright delta time the curve moves.

Multiple BD (copy DD*-1) per time bucket

From the previous example we conclude that it is important to construct the BD as $DD^* - 1$ to prevent an RMA result (volatility) while there is no economic result (volatility) Let's consider the same example.

Time buckets 1-12 and after 15 20 25)
BD copy DD (*-1) (no over and under hedges)

Limit +/-5

Year	12	14	15	16.5	17.5	9	20	21.5	22.5	24	25	Total
NRRE					-2.0		-10.0		-3.0			-15.0
DD					2.0		10.0		3.0			15.0
NRRE allocation			-1.0				-12.5				-1.5	-15.0
DD allocation			1.0				12.5				1.5	15.0
BD start					-2.0		-10.0		-3.0			-15.0
BD allocation			-1.0				-12.5				-1.5	-15.0
BD correction 'over-hedge'			0.0				0.0				0.0	0.0
Total BD			-1.0				-12.5				-1.5	-15.0
NRRE - DD	0		0				0				0	0
BD-DD	0		0				0				0	0

1 period further in time (simplified no change PV01)

Year	12	14	15	16.5	17.5	9	20	21.5	22.5	24	25	Total
NRRE				-2.0		-10.0		-3.0				-15.0
DD				2.0		10.0		3.0				15.0
NRRE allocation			-3.4				-10.7				-0.9	-15.0
DD allocation			3.4				10.7				0.9	15.0
BD start				-2.0		-10.0		-3.0				-15.0
BD allocation			-3.4				-10.7				-0.9	-15.0
Total BD			-3.4				-10.7				-0.9	-15.0
NRRE - DD	0		0				0				0	0
BD-DD	0		0				0				0	0

This example shows that the RMA outcome does represents risk management and mitigates the accounting volatility. However, we note that this is a simplified example, where all the DD exactly match the NRRE and BD. All constructed at the same moment with identical benchmark curves and PV of zero.

Let's consider the same under and over hedges per time bucket, hedging 22.5 year partly with a 21.5-year derivative (same PV01 in different bucket).

Time buckets 1-12 annually after 15 20 25)

BD copy DD (*-1) (over and under hedges)

Limit +/-5

Year	12	14	15	16.5	17.5	9	20	21.5	22.5	24	25	Total
NRRE					-2.0		-10.0		-3.0			-15.0
DD					2.0		10.0	1.0	2.0			15.0
NRRE allocation			-1.0				-12.5				-1.5	-15.0
DD allocation			1.0				12.7				1.3	15.0
BD start					-2.0		-10.0	-1.0	-2.0			-15.0
BD allocation			-1.0				-12.7				-1.3	-15.0
BD correction 'over-hedge'							0.2					0.2
Total BD			-1.0				-12.5				-1.3	-14.8
NRRE - DD	0		0				0.2				-0.2	0
BD-DD	0		0				0.2				0	0.2

1 year further in time (simplified no change PV01)

Year	12	14	15	16.5	17.5	9	20	21.5	22.5	24	25	Total
NRRE				-2.0		-10.0		-3.0				-15.0
DD				2.0		10.0	1.0	2.0				15.0
NRRE allocation			-3.4				-10.7				-0.9	-15.0
DD allocation			3.4				11.0				0.6	15.0
BD start				-2.0		-10.0	-1.0	-2.0				-15.0
BD allocation			-3.4				-11.0				-0.6	-15.0
BD correction 'over-hedge'							0.3					0.3
Total BD			-3.4				-10.7				-0.6	-14.7
NRRE - DD	0		0				0.3				-0.3	0
BD-DD	0		0				0.3				0	0.3

While economically there is an under and over hedge in 2 adjacent time buckets, for RMA there is an outright PV01 at T=0 and T=1. This is not in line with risk management. This is caused by the fact that for risk management an under and over hedge are indifferent and accepted within risk limits. With the current RMA restriction of and risk mitigation objective per time bucket, the over hedge in one bucket cannot be assigned / allocated to an under hedge in another time bucket using a PV01 per time bucket.

Using a cumulative profile

A cumulative PV01 profile may mitigate certain bucket level artefacts by allowing under and over hedges to offset across buckets. However, this approach represents a workaround rather than a solution. Cumulative PV01 profiles are not used as primary risk measures in IRRBB, and their accounting outcomes depend on the direction of cumulation (long to short versus short to long).

If the same economic risk position produces different RMA outcomes depending on the chosen (cumulative) PV01 method, the model cannot be considered risk based.

We use an example where a 7-year NRRE is hedged in the 5- and 10-year bucket.

7 year NRRE hedged in 10 and 5 years

Limit +/-5

PV01 per time bucket (DD>NRRE in 10 year)				
Year	5	7	10	Total
Asset	-100		-150	-250
Liability	80	5	160	245
NRRE	-20	5	10	-5
DD	17.5	0	-12.5	5
BD (per time bucket)	-17.5		10	-7.5
NRRE-DD = Risk management / Economic position	-2.5	5	-2.5	0
BD-DD RMA ≠ Economic position	0	0	-2.5	-2.5

RMA shows outright PV01 (in 10 year) = RMA volatility in case of flat curve move.
Economic position; no outright PV01; total PV01 is zero with + and -/- per time bucket.

Cumulative PV01 profile (longest to shortest)				
Year	5	7	10	Total
Cumulative NRRE	-5	15	10	
Cumulative DD	5	-12.5	-12.5	
BD	-17.5	2.5	10	-5
Cumulative BD	-5	12.5	10	
over hedge/spill	0	0	-2.5	
NRRE-DD = Risk management / Economic position	-2.5	5	-2.5	0
BD-DD RMA ≠ Economic position	0	2.5	-2.5	0

RMA shows no outright PV01 as 10 year PV01 is 'spilled' to the 7 year bucket, where there is a NRRE.
BD and DD are not identical, resulting in volatility if curve move in the 7 and 10 year are not identical (non flat curve move). While risk position (over and under hedges) are in 5, 7 and 10 year bucket.

IAS39/IFRS9				
Year	5	7	10	Total
Asset in HA	-17.5			-17.5
Liability in HA			12.5	12.5
DD in HA	17.5		-12.5	5
Volatility	0	0	0	0

In IAS39/IFRS9, there is no volatility, also not in case of a non flat curve move

In this example there is an outright PV01 in RMA in the 10-year bucket using a PV01 per time bucket and no outright PV01 in the cumulative PV01 approach, over- hedge mitigated in / spilled to the 7-year bucket.

This is closer and does not result in volatility with a flat curve move, However, risk management is not exactly represented as NRRE is in 7 and hedged in 10 and 5 years. This might be solved with also introducing a shorter to longer buckets cumulative PV01 profile. But we are of the opinion that this creates another operational burden.

For comparison, under IAS39/IFRS9 there would not be any accounting volatility, also with a non-parallel shift of the curve. IAS 39/IFRS9 avoided these outcomes, not because it was conceptually inferior, but because it did not impose bucket-level over-hedge constraints (due to a gross designation of assets and liabilities).

With a different NRRE and same hedging of the 7-year NRRE in the 5- and 10-year bucket, there is no volatility (no difference between DD and BD) under RMA (and IAS39/IFRS9) while there is an economic position.

7 year NRRE hedged in 10 and 5 years

Limit +/-5

PV01 per time bucket (DD<NRRE in 10 year)				
Year	5	7	10	Total
Asset	-100		-150	-250
Liability	80	5	140	225
NRRE	-20	5	-10	-25
DD	17.5	0	7.5	25
BD (per time bucket)	-17.5		-7.5	-25
NRRE-DD = Risk management / Economic position	-2.5	5	-2.5	0
BD-DD RMA ≠ Economic position	0	0	0	0

No outright PV01 with identical hedge of 7 year NRRE hedged in 10 and 5 year bucket. However now resulting in an 'under hedge' in the 10 (and 5) year bucket and therefore no RMA volatility at all.

Cumulative PV01 profile (longest to shortest)				
Year	5	7	10	Total
Cumulative NRRE	-25	-5	-10	
Cumulative DD	25	7.5	7.5	
BD	-17.5		-7.5	-25
Cumulative BD	-25	-7.5	-7.5	
over hedge/spill	0	0	0	
NRRE-DD = Risk management / Economic position	-2.5	5	-2.5	0
BD-DD RMA ≠ Economic position	0	0	0	0

Also with cumulative PV01 no RMA volatility

IAS39/IFRS9				
Year	5	7	10	Total
Asset in HA	-17.5		-7.5	-25
Liability in HA				0
DD in HA	17.5		7.5	25
Volatility	0	0	0	0

Again in IAS39/IFRS 9 no volatility

The fact that different PV01 measurements, cumulative PV01 measure or not, including cumulative directions (short to long vs long to short) produce different RMA outcomes for the same economic position demonstrates that the issue is conceptual rather than methodological.

IR stress results

For an unresolved EVE risk of -5.0Mln (theoretical ALCO-approved mismatch position) and an interest rate shock +200bps, incorrect excess accounting volatility risk of 1000Mln would result under RMA, which wouldn't have been present with proxy hedge accounting under EU-endorsed IAS39.

Under IRRBB stress scenarios (parallel, steeper and flattener), the combined net exposure remains stable and within limits. RMA, however, converts offsetting bucket level positions into outright deltas, generating accounting volatility not captured by prudential stress testing and not reflective of economic risk. This volatility would not be observed under any IRRBB supervisory shock scenario and would not trigger any risk limit breach, further confirming its non-economic nature.

Operability concerns

The operability issues identified are not incidental but structural. RMA requires continuous trade-level tracking, frequent benchmark re-engineering and arbitrary reallocation driven by roll-down, all of which arise from the prohibition of bucket-level over-hedging rather than from risk management activity.

Creation of a cumulative operational profile is structurally unworkable because of:

- Mandatory trade-level tagging
- Continuous benchmark rebalancing
- Roll-down-driven false over-hedges
- Dependence on arbitrary bucket definitions

These operability issues are not implementation challenges but direct consequences of enforcing a risk concept that does not exist in risk management.

Conclusion

The accounting approach in the RMA Exposure Draft contains a fundamental flaw. By imposing over-hedge restrictions that do not exist in IRRBB, RMA introduces artificial accounting volatility and misrepresents risk management activities. This misalignment cannot be resolved by alternative benchmark designs, cumulative measures, or additional guidance, i.e. This is a foundational issue and not a detail to tweak.

IRRBB Note

- RMA is misaligned with IRRBB, which is treated by supervisors as the authoritative risk framework.
- IRRBB treats combined net position.
- No distinction between NRRE-originated risk and hedge-originated risk. NRRE is an artificial construct which is not recognised in IRRBB.
- RMA relies on a risk concept that does not exist in IRRBB, which causes inconsistency. In risk management, only the combined net position matters.
- The distinction between over-hedge and under-hedge per time bucket is artificial.

The accounting approach in the ED contains a fundamental flaw.

RMA applies artificial accounting restrictions inconsistent with actual risk management. This conceptual misalignment upon withdrawal of IAS39 introduces some not only operational problems but also potentially material residual accounting volatility and accounting volatility risk.

This issue requires a conceptual revision of the model rather than incremental clarification.

Table to Contrast IFRS over-hedge/under-hedge and IRRBB limit excess

Term	IFRS Existence	IRRBB existence
<i>Overhedge</i>	Yes. Concept which introduces a limit to prevent more derivatives than needed to perfectly hedge the NRRE per bucket	No. (The RMA model says something is wrong when there isn't)
<i>Underhedge</i>	Combined exposure is permitted up to the risk appetite (limit)	No, not IRRBB terminology
<i>Risk Limits</i>	Allows only risk-reducing actions within detailed bucket limits	Allows both risk-increasing and risk-reducing actions within high-level (not bucket) limits

BCBS IRRBB measurements

IRRBB ensures that banks adequately identify, measure, and manage IRRBB (Pillar 2) and report upon the risks in their portfolios (Pillar 3) by reference to 6 specific scenarios to show the respective worst-case impacts on NII and EVE measures from these scenarios.

IRRBB practice does not differentiate between net risk originated from the balance sheet or NRRE or risk originated from hedges.

Actual practices to manage interest rate in the banking book (IRRBB) are governed by the BCBS IRRBB standard. Within this standard, reference is made to the risk exposure of underlying items including derivative hedges and there is no concept identified, which aligns with the IFRS over-hedge

The RMA treatment of this topic isn't aligned with Risk Management practices under IRRBB. As a result, we could reasonably expect excessive accounting volatility and accounting volatility risk in our institutions. As a result, this approach is not supported by the EBF.

The resulting RMA outcomes cannot be understood or reconciled by users without access to proprietary bucket level risk data, undermining transparency rather than enhancing it.

Accordingly, the issue identified in this paper is not the use of repricing buckets, but the prohibition of over hedging within those buckets, which leads RMA to treat identical economic risk positions differently depending on whether they arise through under hedging liabilities or over hedging assets.

Required change

An over-hedge of an asset position and an under-hedge of a liability position within approved risk limits result in the same economic exposure under IRRBB. Risk management and supervision do not distinguish between these outcomes.

To align RMA with IRRBB and faithfully represent risk management, the concepts of "over-hedge" and "under-hedge" on the risk mitigation objective, should be removed.

Furthermore, the inclusion of the artificial concept of a separate CNOP/NRRE (excluding derivatives) is not recognised under IRRBB frameworks, which do not distinguish between risk originated from balance sheet items or risk originated from derivative hedges. And so, and so this artificial concept of just the balance sheet or NRRE risk should be reviewed for removal.

Alternative refinement if the IASB retains the over-hedge restriction

Introduction of an **RMA eligibility threshold** removes the existence of over-hedging as an accounting fact and as a result aligns more-closely with risk management, where the concept of "over hedging" doesn't actually exist. The following proposal argues that hedging within the approved risk appetite, typically the IRRBB risk limits, is not over-hedging and therefore is permitted.

Over-hedging should not be assessed solely at the level of an isolated repricing bucket if the bank's overall net interest rate risk remains controlled. Given the diversity of practice and differences in regulatory requirements, the proposal does not explicitly refer to the bank's overall risk limits or to specific regulatory thresholds, such as the IRRBB Supervisory Outlier Test. Instead, it introduces a tolerance that operates as an RMA eligibility threshold defined by the bank. This threshold should be defined at hedge inception and should meet the following criteria and safeguards:

- Be in line with, or lower than, the IRRBB risk limits approved by the Board of Directors;
- Be in line with, or lower than, the regulatory threshold applicable to interest rate risk management; and
- Be consistent with the overarching requirement of "risk mitigation" as applied in interest rate risk management, meaning that any over-hedging should be immaterial relative to the bank's overall interest rate risk.

This tolerance should be defined using the same interest rate risk metric that is used internally, for example ΔEVE as a percentage of Tier 1 capital. The tolerance would operate as an RMA eligibility threshold, rather than as a new risk-taking limit, and would better align hedge accounting with prudential interest rate risk management.

The updated risk mitigation objective, including the defined RMA eligibility threshold, is represented by benchmark derivatives that incorporate the threshold to the extent reflected in the bank's actual hedging derivative positions.

The RMA eligibility threshold could be incorporated into the new disclosure requirements.

Appendix/Supporting documentation

EFRAG outreach findings

The 2016/2017 EFRAG outreach on IRRBB practices at 13 large European banks, which concerns the accepted practices to both stabilise and optimise NII.

FINDINGS OF THE OUTREACH

PURPOSE AND NATURE OF INTEREST RATE RISK MANAGEMENT ACTIVITIES

The purpose of interest rate risk management was generally described as *stabilising* net interest income, i.e. reduction of volatility of the interest margin. However, banks also take action to *optimise* net interest income (which involves taking a position that the bank expects will be profitable). Thus, the purpose of interest rate management can generally be described as managing net interest income. That purpose remained the same over time and did not depend on the overall structure of the balance sheet.

Interest rate risk management is generally undertaken for the full *banking book*, including positions from *structural balances*.

Structural balances include demand deposits and equity. They do not have cash flows with exact amount and timing. This makes it harder for them to be included in the interest rate risk management in a straightforward way. As a result, their behaviour has to be *modelled*.

Some, but not all banks in the outreach took into account the liquidity risk profile of deposits when modelling these for interest rate risk management purposes.

WG10 I UNEXPECTED CHANGES

Information sheet

		<i>Title</i>	WG10 I UNEXPECTED CHANGES
		<i>Paper writer</i>	EBF Hedge Accounting Workgroup
		<i>Type of paper</i>	Interpretation/clarification
(23)	<i>Interpretation/clarification</i>		
(24)	<i>Fatal flaw: request/demand for change</i>		
		<i>Adjustment required for RMA?</i>	No
		<i>Conceptual issue?</i>	No
		<i>RAG¹²</i>	

¹² Please refer to the latest version of the document "Definition of Traffic Light Colouring/System" for the corresponding definition of the traffic light system applied

Contents

Introduction	209
Regulation.....	211
Applicable law and articles (accounting and/or regulatory).....	211
Benchmark derivatives	211
Risk mitigation adjustment excess	212
Proposed treatment.....	214
Changes in underlying portfolios.....	214
Unexpected changes vs expected changes.....	214
View 1: Align with risk management	214
View 2: Changes in expectations are also to be considered “unexpected”	215
Adjusting benchmark derivatives	216
Example 1: fully reflect unexpected changes.....	216
Example 2: fully reflect unexpected changes.....	217
Example 3: unexpected changes not fully reflected	218
RMA excess test	219
Examples	220
Simple example	220
Scaled example.....	220
Operability concerns	221
Conclusion.....	222
Appendix/Supporting documentation	223

Introduction

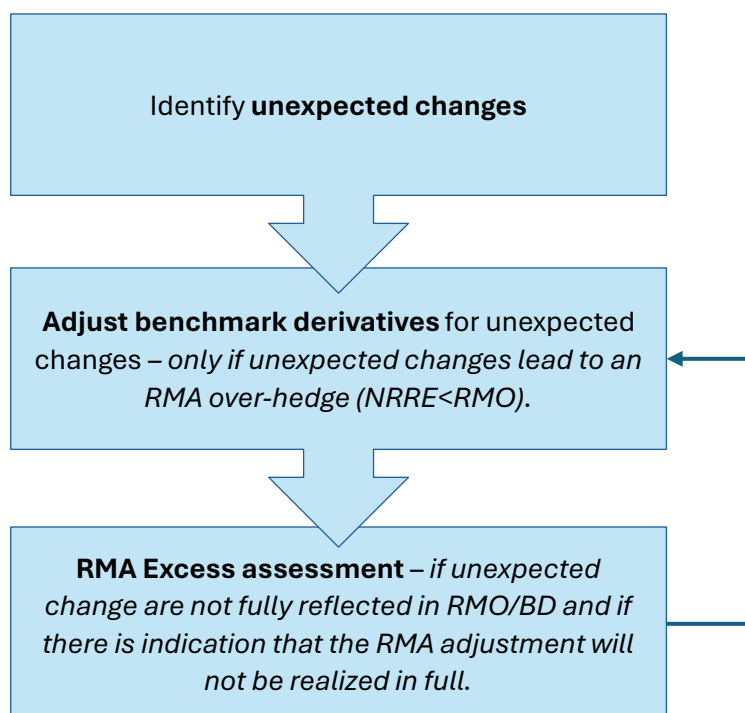
The IASB published the Exposure Draft on Risk Mitigation Accounting on 3 December 2025 and invited stakeholders to provide feedback on the proposed requirements. To support the development of a robust, evidence-based comment letter, the banking industry decided to perform a field test of the RMA requirements. The deadline for submitting the comment letter is aligned with the IASB's fieldwork submission deadline, with both submissions due by 30 November 2026.

The banking industry sees some major challenges/issues concerning the identification and definition of unexpected changes and the interaction with benchmark derivatives and the RMA excess assessment.

Unexpected changes are a key element in the proposed RMA model:

1. Entities are expected to adjust the benchmark derivatives if unexpected changes lead to a reduction in the net repricing risk exposure to an amount below the risk mitigation objective specified at the beginning of the period (in any time band).
2. If unexpected changes are not fully reflected in the benchmark derivatives this could lead to a risk mitigation excess and the release of such an excess.

Both scenarios are expected to impact an entity's profit or loss, making unexpected changes a key element in the proposed RMA model.



The ED does not specify a single approach for updating benchmark derivatives to capture the effects of unexpected changes. It does state that the approach takes must use reasonable and supportable information.

Also, the ED acknowledges that in certain circumstances entities may not be able to update the benchmark derivatives for unexpected changes. For these circumstances the proposed model introduces the excess test as a "backstop".

In this paper we will discuss the concept of unexpected changes; i.e. what are unexpected changes and how do they impact the other elements of the model, in particular the benchmark derivatives and the RMA excess test.

Regulation

Applicable law and articles (accounting and/or regulatory)

Benchmark derivatives

- ED 7.4.5 An entity shall replicate the timing and amount of repricing risk as specified in the risk mitigation objective through benchmark derivatives. An entity shall construct new benchmark derivatives to have an initial fair value of zero based on the mitigated rate.
- ED 7.4.6 However, unexpected changes in the financial instruments included in underlying portfolios might reduce the net repricing risk exposure to an amount below the risk mitigation objective specified at the beginning of the period. An entity shall adjust the benchmark derivatives to capture the effects of such unexpected changes.
- ED 7.4.7 The entity shall use reasonable and supportable information to adjust the benchmark derivatives to ensure that the exposure to repricing risk represented by the benchmark derivatives does not exceed the net repricing risk exposure in any repricing time band.
- ED B7.4.10 The benchmark derivatives are constructed to represent the risk mitigation objective as specified on a particular date. Therefore, unexpected changes in the underlying portfolios that occur after that date might reduce the net repricing risk exposure to below the risk mitigation objective. To ensure that the benchmark derivatives remain representative of the mitigated repricing risk, an entity is required to adjust the benchmark derivatives to reflect the effect of such unexpected changes using reasonable and supportable information.
- ED B7.4.11 Unexpected changes in financial instruments included in underlying portfolios **could occur if these instruments reprice earlier or later than expected—for example, prepayments on an entity's mortgage portfolio could be higher or lower than expected.**
- ED B7.4.12 However, an entity is not required to capture the effects of all unexpected changes in the net repricing risk exposure. An entity is required to adjust the benchmark derivatives only if unexpected changes reduce the net repricing risk exposure to below the risk mitigation objective in any repricing time band. For example, the risk mitigation objective might result in 70 units of repricing risk being mitigated in a particular repricing time band when the net repricing risk exposure allocated to that repricing time band was 100 units. In that case, the entity would need to adjust the benchmark derivatives only if unexpected changes during the period reduced the net repricing risk exposure in that repricing time band to less than 70 units.
- ED B7.4.13 An entity might take various approaches to adjusting the benchmark derivatives to capture the effects of unexpected changes. For example, an entity might use the characteristics and interest rate structures of financial instruments in the underlying portfolios to approximate the adjustment to the benchmark derivatives. The approach an entity takes will depend on the specificity with which the entity tracks its risk management activities over

time. Regardless of the approach an entity applies, it must use reasonable and supportable information to estimate necessary adjustments to the benchmark derivatives.

- ED B7.4.14 However, if reasonable and supportable information to estimate the effect of unexpected changes on the benchmark derivatives is not available without undue cost or effort, an entity shall deem the unexpected changes to have occurred at the time when the risk mitigation objective was last specified. For example, if an entity specifies a new risk mitigation objective on a monthly basis, the entity assumes that any unexpected changes during a month occurred at the beginning of that month.
- ED BC85 The risk mitigation objective is determined at a point in time based on an entity's expectations with regards to the repricing dates of financial instruments included in underlying portfolios, as well as current and future economic conditions. **However, the actual outcomes will often be different from an entity's expectations and financial instruments included in the underlying portfolios might reprice earlier or later than expected.**
- ED BC86 Such unexpected changes to the net repricing risk exposure might result in the designated derivatives no longer mitigating the repricing risk. Instead, they could inadvertently create synthetic repricing risk positions. The IASB therefore decided that after an entity has constructed the benchmark derivatives, it is required to adjust them if unexpected changes occur that reduce the net repricing risk exposure to below the risk mitigation objective.
- ED BC87 Not all entities have access to reasonable and supportable information that will allow them to determine the adjustments necessary to capture the effect of unexpected changes without incurring undue cost or effort. An entity's ability to capture such information depends on the specificity and level of detail with which it tracks changes in the underlying portfolios. The IASB therefore proposes that if such information is not available without undue cost or effort, an entity would deem the unexpected changes to have occurred when the most recent risk mitigation objective was specified. In the IASB's view, this operational simplification would be equivalent to adjusting the net repricing risk exposure as though the amount of repricing risk affected by the unexpected changes did not exist at that date, meaning the risk mitigation objective specified at that time would have been lower by that amount.

Risk mitigation adjustment excess

- ED 7.4.11 An entity shall assess at each reporting date whether there is an indication that the amount accumulated as the risk mitigation adjustment might not be realised in full over the mitigated time horizon. This situation would arise if there were unexpected changes in the net repricing risk exposure during the reporting period that have not been **fully reflected** in the adjustments to the benchmark derivatives in accordance with paragraphs 7.4.6–7.4.7.
- ED 7.4.12 If such an indication exists, the entity shall determine whether the amount accumulated as the risk mitigation adjustment exceeds the present value of the net repricing risk exposure as at the reporting date.

- ED B7.4.19 The amount accumulated as the risk mitigation adjustment in the statement of financial position represents the effects of an entity mitigating the repricing risk arising from financial instruments in the underlying portfolios by using designated derivatives over the mitigated time horizon. When unexpected changes in the underlying portfolios occur, an entity applies paragraphs 7.4.6–7.4.7 to adjust the benchmark derivatives to reflect the effects of such changes. However, in some circumstances, an entity might not be able to adjust the benchmark derivatives to capture the effect of unexpected changes. In such circumstances, the entity would need to consider whether such changes could negatively affect its ability to realise the risk mitigation adjustment over the mitigated time horizon.
- ED BC101 Some stakeholders raised concerns that if an entity were to adjust the benchmark derivatives constructed as if unexpected changes to the net repricing risk exposure had occurred at the date the risk mitigation objective was last specified, the risk mitigation adjustment might not capture the full effects of all unexpected changes. Because an entity might change its risk mitigation objective frequently, the unexpected changes in the net repricing risk exposure could also affect the benchmark derivatives related to previous periods.
- ED BC102 **If an entity had adjusted the benchmark derivatives for unexpected changes for the current and previous periods, the risk mitigation adjustment would be expected to be realised in full.** However, if an entity were unable to determine the effect of unexpected changes in the net repricing risk exposure or if reasonable and supportable information were not available without undue cost or effort, the risk mitigation adjustment might not be realised in full. For example, prepayments or other unexpected changes to the underlying portfolios could influence the extent to which the designated derivatives mitigate cash flow and fair value variability in future periods.
- ED BC103 The IASB noted that when specifying the risk mitigation objective, most entities do not aim to mitigate the net repricing risk exposure in full. The IASB therefore expects that, in most instances, unexpected changes in the net repricing risk exposure would not affect the realisation of the risk mitigation adjustment. However, the IASB acknowledged that, in some circumstances, the extent of unexpected changes might be so high that an entity would not be able to realise the risk mitigation in full.
- ED BC104 The IASB therefore proposes that an entity be required to assess at each reporting date whether there is an indication that the risk mitigation adjustment will not be realised in full because of the effect of unexpected changes in the underlying portfolios for which the benchmark derivatives have not been adjusted.
- ED BC111 The IASB proposes that the excess of the risk mitigation adjustment be recognised in profit or loss (see paragraph 7.4.14 of the Exposure Draft). However, the IASB observed that an entity would only recognise the excess in profit or loss when the benchmark derivatives have not been adjusted for unexpected changes. Therefore, an entity might not be able to determine the reporting periods in which to make corresponding adjustments when the effects of repricing risk are expected to affect profit or loss.

Proposed treatment

Changes in underlying portfolios

The net repricing risk exposure is made up of the underlying portfolios which, in turn, are made up of eligible financial instruments. The net repricing risk exposure is based on expected repricing dates and takes into account, for example an entity's expectations about client behaviour.

The underlying portfolios will change over time, as a result of:

- Derecognition of existing items
- Recognition of new items
- Changes in expected client behaviour.

Identifying these changes and analysing changes into the different categories is likely to be a significant challenge for many banks. Generally, risk management relies on the overall change (delta) and may not take into account the different categories for change. These banks will not have implemented a process where period-on-period changes in the underlying portfolios are consistently and reliably analysed into the different categories.

Unexpected changes vs expected changes

The ED does not define the term "unexpected changes" (or expected changes), however, it does provide some guidance and examples. See below B7.4.11 and BC 85.

Furthermore B7.4.12 and BC 86 introduce some asymmetry in the concept of unexpected changes: only those leading to a NRRE below the risk mitigation objective in any repricing time band should be considered as unexpected changes.

And B7.4.19 highlight the idea that unexpected changes occur when "such changes could negatively affect its ability to realise the risk mitigation adjustment over the mitigated time horizon".

View 1: Align with risk management

Based notably on paragraphs B7.4.11 and BC85 we believe "unexpected" changes refers to those changes where the "actual outcomes" are significantly different from the "entity's expectations" at the time the risk mitigation objective was specified. For example, in case of a portfolio of mortgages this would be if actual prepayments are significantly different from what was expected at the beginning of the period. For current and/or savings accounts this would be, for example, if actual withdrawals are significantly different from what was expected. This would also include the sale of a part of one of the underlying portfolios (which was not foreseen) in the net repricing risk exposure. Overall, we are of the view that unexpected changes will be rare and therefore should occur infrequently.

Recognition of new items will be addressed prospectively in the RMA Model and should therefore be considered "expected", unless the net repricing risk exposure included future transactions and actual new items recognized differs from what was expected at the beginning of the period. For example, this could occur if the net repricing risk exposure includes mortgages pipeline and the volume of new mortgages realized differs from what was expected.

Changes in expected client behaviour, e.g. changes in the expected repricing dates as a result of modelling changes or changes in interest rates are considered "expected" and should therefore be addressed prospectively; i.e. these do not require the benchmark

derivatives to be adjusted. Instead, these would result in new designated derivatives and would therefore also trigger the creation of new benchmark derivatives. This includes, for example, changes in the expected client behaviour for mortgages or a change in the expected repricing date of current accounts and/or savings accounts.

Example	Expected or Unexpected
Actual prepayment date differs from expected prepayment date	Unexpected
Change in expected prepayment dates as a result of changes in market interest rates	Expected
Change in expected prepayment dates as a result of a model update (interest rates do not change)	Expected
New items originated during the period	Expected
Unexpected sale of (part of) the underlying portfolio	Unexpected

View 2: Changes in expectations are also to be considered “unexpected”

AP4A: DRM Model Illustrative Examples (May 2023) includes examples/scenarios illustrating the DRM Model, where scenario 1C includes an unexpected change:


38

Scenario 1C – unexpected change to the assumptions

- At 31st December 20X2, the entity’s expectation regarding the repayment profile of the financial asset has changed:
 - Original expectation: The financial asset will be repaid on 31st December 20X5 in full (CU1,000) and all proceeds will be reinvested on 1st January 20X6 at the prevailing market rate.
 - Revised expectation: The financial asset will be partially repaid (CU500) on 31st December 20X4 (earlier than previously expected), and the proceeds will be reinvested on 1st January 20X5 at the prevailing market rate; the remaining amount (CU500) is still expected to be repaid on 31st December 20X5 and reinvested on 1st January 20X6 at the prevailing market rate.
- This change was not expected by the entity when it determined the RMI at the beginning the second period (ie as at 1st January 20X2).

In this example a change in the expected (p)repayment date(s) is considered an unexpected change. If this is the case, changes in expectations should also be considered “unexpected”.

Example	Expected or Unexpected
Actual prepayment date differs from expected prepayment date	Unexpected
Change in expected prepayment dates as a result of changes in market interest rates	Unexpected
Change in expected prepayment dates as a result of a model update (interest rates do not change)	Unexpected
New items originated during the period	Expected
Unexpected sale of (part of) the underlying portfolio	Unexpected

In this view only new items originated during the period should be addressed prospectively, i.e. are considered “expected”, and all other changes are considered “unexpected”. As discussed above, if the net repricing risk exposure includes future transactions, only those changes that are different from expected, should be considered “unexpected”, also for the recognition of new instruments.

Please note that this view does not align with risk management. It would result in a large number of unexpected changes and would require tracking of the individual instruments in the underlying portfolios, which in our view is not a true portfolio approach and would make the RMA model practically un-workable.

Furthermore, it would lead to significant volatility in P&L.

Adjusting benchmark derivatives

Depending on the definition of unexpected changes, discussed in the previous section, there will be more or less unexpected changes.

Entities are required to update benchmark derivatives to reflect unexpected changes that lead to a reduction in the net repricing risk exposure to an amount below the risk mitigation objective defined at the beginning of the period (in any time band).

To fully reflect unexpected changes in the benchmark derivatives, the updated benchmark derivatives should fully reflect the updated net repricing risk exposure and/or risk mitigation objective unless it requires undue costs and efforts, in which case “an entity shall deem the unexpected changes to have occurred at the time when the risk mitigation objective was last specified „(B7.4.14).

In this latter case, an RMA excess assessment would have to be undertaken.

Example 1: fully reflect unexpected changes

Entity XYZ originates a loan in Feb 20X2 with a nominal amount of 1.000. The entity expects the loan to be repaid in Feb 20X8 and as part of its risk management it enters into a 6 year payer swap (designated derivative). As part of its RMA the entity creates a new benchmark derivative to reflect/mirror the designated derivative and its risk mitigation objective.

After one year (in Feb 20X3) the counterparty decides to repay half of the loan. The risk mitigation objective now exceeds the net repricing risk exposure. The entity needs to

adjust the benchmark derivative. To fully reflect the unexpected changes, the entity could do two things:

- (i) Adjust the existing benchmark derivative: reduce the notional by 50%.
- (ii) Create a new adjusting benchmark derivative: create a partially offsetting benchmark derivative with a nominal amount of 500 and the same swap rate as the original benchmark derivative¹³.

Ultimately these two approaches should give the same outcome. As a result of the adjusting benchmark derivative there will be some ineffectiveness in the current period; in the lower of test the entity will now compare a designated derivative with a nominal amount of 1,000 with the updated benchmark derivative(s) with a nominal amount of 500. As the updated benchmark derivative(s) now -again- fully reflect the underlying loan, there is no reason to believe that the entity cannot realize the RMA adjustment of the mitigated horizon and there should be no additional release of the RMA adjustment (no excess test).

Please note that in a case like this we would expect the entity to also adjust the designated derivative to reflect the new risk exposure. It could do so in a number of ways, for example it could partially unwind the original designated derivative, enter into a partially offsetting swap at the original swap rate or at the current swap rate. These changes will be reflected prospectively in RMA.

The above example is relatively straightforward as only the nominal amounts are affected (partial prepayment). If instead the expected repayment date was revised, updating the benchmark derivatives would already be more challenging. See example 2 below.

Please note that this is not in line with our view 1 in the previous section, where this type of change would be addressed prospectively (i.e. is considered expected).

Example 2: fully reflect unexpected changes

Entity XYZ originates a loan in Feb 20X2 with a nominal amount of 1.000. The entity expects the loan to be repaid in Feb 20X8 and as part of its risk management the entity enters into a 6 year payer swap (designated derivative). As part of its RMA the entity creates a new benchmark derivative to reflect/mirror the designated derivative.

After one year (in Feb 20X3) the entity revises its original expectation and as a result it expects that the loan will now be repaid in Feb 20X7 (i.e. one year earlier than initially expected). The risk mitigation objective now exceeds the net repricing risk exposure. The entity needs to adjust the benchmark derivative. To fully reflect the change, the entity adjusts the existing benchmark derivative so that its maturity is updated (to Feb 20X7) and the fixed rate now represents the 5yr swap rate on origination (in Feb 20X2). It can do this by updating the original benchmark derivative or by adding adjusting benchmark derivative. Ultimately, the results should be exactly the same.

In this case as well, there will be some ineffectiveness as the designated derivative has a remaining maturity of 5 years and is (still) based on the 6yr swap rate (on Feb 20X2), whereas the update benchmark derivative(s) has a remaining maturity of 4 years and is now reflecting the 5yr swap rate (in Feb 20X2). Since the update is reflected fully, we do not expect a further release of the RMA adjustment is required (no excess test).

¹³ Please note that in this example, on date of creation (Feb 20X3) this adjusting benchmark derivative does not have a value of zero. However, it does have a start value of zero on Feb 20X2 and we believe it is therefore compliant with the zero initial value requirement described in para 7.4.5

In this case as well, we would expect the entity to adjust the designated derivative to reflect the updated risk exposure. This adjustment is addressed prospectively and will be reflected in the next RMA period(s).

Please note in both examples the benchmark derivative is updated as if the unexpected change was already known from the start, i.e. at origination of the loan.

Both examples are extremely simple and reflect a micro-approach which is not aligned with risk management of open portfolio where derivatives and non-derivative positions are considered as fungible. In a real-life RMA Model where the net repricing risk exposure is a net position, combining multiple underlying portfolios (e.g. with 100.000s of individual items or more), across multiple time bands (e.g. sometimes up to 20 years), where the risk mitigation objective changes frequently, with 1,000s of designated derivatives and benchmark derivatives, etc. we expect this will become extremely complicated and requires a lot of monitoring and tracking, i.e. monitoring and tracking of the individual items in the underlying portfolios, which defies the nature of a macro or portfolio hedge and is not aligned with risk management. Risk models and assumptions cannot be applied to individual loans, mortgages and/or accounts in the underlying portfolios; they can only be applied if there is a substantial number of individual items; i.e. on a portfolio level.

We welcome the fact that the Exposure Draft does not prescribe a single approach to creating/updating benchmark derivatives and also leaves room for entities to not always fully reflect all unexpected changes in the benchmark derivatives (e.g. paras B7.4.13 and B7.4.14).

ED B7.4.13 An entity might take various approaches to adjusting the benchmark derivatives to capture the effects of unexpected changes. For example, an entity might use the characteristics and interest rate structures of financial instruments in the underlying portfolios to approximate the adjustment to the benchmark derivatives. The approach an entity takes will depend on the specificity with which the entity tracks its risk management activities over time. Regardless of the approach an entity applies, it must use reasonable and supportable information to estimate necessary adjustments to the benchmark derivatives.

ED B7.4.17 However, if reasonable and supportable information to estimate the effect of unexpected changes on the benchmark derivatives is not available without undue cost or effort, an entity shall deem the unexpected changes to have occurred at the time when the risk mitigation objective was last specified. For example, if an entity specifies a new risk mitigation objective on a monthly basis, the entity assumes that any unexpected changes during a month occurred at the beginning of that month.

At the same time, we also realize that such approaches are not without risk, as explained in the following section and examples.

Example 3: unexpected changes not fully reflected

Same fact pattern as in example 1 above. Instead of creating an adjusting benchmark derivative at the Feb 20X2 swap rate, the entity could take a different approach and create an adjusting benchmark derivative at the Feb 20X3 swap rate (as any other alternative would represent undue costs and efforts).

This would mean that the benchmark derivatives do not represent the hedged loan fully anymore. This adjustment would result in some hedge ineffectiveness for the current period. In addition, it is likely that the entity is not able to fully realize the RMA adjustment

in future periods anymore and therefore has to release part of its RMA adjustment to profit or loss.

Operationally example 3 is much easier to implement, as it requires less tracking and monitoring, but it makes it more likely that the entity has to perform an RMA excess test and release part of the RMA adjustment.

RMA excess test

If the entity is not able to fully reflect all unexpected changes in its benchmark derivatives it may not be able to realize the RMA adjustment in future time periods, i.e. over the mitigated time horizon. If this is the case the entity is required to perform an RMA excess test and potentially release an RMA excess to profit or loss immediately.

In our EBF paper on the Excess test we already concluded that test itself, as worded in the exposure draft, is fundamentally flawed (e.g. it ignores (changes in) the risk mitigation objective) and therefore could result in spurious P&L. Also, the calculations that are needed are operationally burdensome.

Once an RMA excess has been released to profit or loss a (further) adjustment to the benchmark derivatives is required; to make sure the recycling of the RMA adjustment to Net Interest Income is back in line with the updated RMA adjustment (after release of the excess amount). See para B7.4.23.

ED B7.4.23 After recognising the excess amount of the risk mitigation adjustment in profit or loss, an entity is required to make corresponding adjustments to the amounts to be recognised in profit or loss in future periods in accordance with paragraph 7.4.10. An entity is permitted to make such adjustments on a systematic and rational basis, which could include a straight-line basis, over the mitigated time horizon.

Approach	Observations
Update BDs (fully reflect unexpected changes)	- Operationally challenging - Requires a lot of monitoring and tracking (defies principle of macro/portfolio hedging). - Avoids excess test - Possible reversal in future periods
Excess Test (PV of NRRE vs RMA Adjustment)	- Conceptually flawed: - PV of NRRE → requires adjustments for e.g. notional/carrying amount (incl. IAS39 HA adjustments after transition and or start/stop scenarios) - Ignores historical RMOs → could lead to spurious PL in certain scenarios - Cannot be reversed in future periods - Requires update of BDs

While not fully reflecting unexpected changes may be less challenging operationally, it is likely to result in spurious P&L as a result of the RMA excess test and a potential release of an RMA excess to profit or loss, unless the RMA excess assessment is amended to be closer to the concept of hidden losses already existing on prudential framework (ICAAP).

Examples

Simple example

N/A

Scaled example

N/A

Operability concerns

Reliably identifying/analysing unexpected changes from expected changes (on an ongoing basis) is operationally challenging, depending on how unexpected changes are defined.

Updating benchmark derivatives to fully reflect unexpected changes is also incredibly challenging; it requires tracking and monitoring of the underlying portfolios at the level of the individual items in the portfolio, which is inconsistent with risk management of open portfolios.

If an entity is not able to fully reflect unexpected changes in the benchmark derivatives it is likely to have to perform an excess test, which is also operationally burdensome and raises some concerns as drafted currently in the ED.

Conclusion

The IASB should define "unexpected changes" by reference to an entity risk management practice where unexpected changes are limited to changes outlined in View 1 above, i.e. (i) Actual prepayment date differs from expected prepayment date; and (ii) Unexpected sale of (part of) the underlying portfolio. In line with the entity's risk management's practice changes in expectations should be considered expected and should therefore not lead to a (retrospective) adjustment of the benchmark derivatives.

A more extensive definition of unexpected changes will otherwise lead to a misalignment to risk management, increases the operational complexity of the model and could trigger RMA releases that do not provide a true and fair view of the entity's financial performance.

Appendix/Supporting documentation

N/A

WG11 I RISK MITIGATION ACCOUNTING: PROPOSED AMENDMENTS TO IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

Information sheet

		<i>Title</i>	WG11 I RISK MITIGATION ACCOUNTING: PROPOSED AMENDMENTS TO IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES
		<i>Paper writer</i>	EBF Hedge Accounting Workgroup
		<i>Type of paper</i>	Interpretation/clarification
(25)	Interpretation/clarification		
(26)	Fatal flaw: request/demand for change		
		<i>Adjustment required for RMA?</i>	Yes
		<i>Conceptual issue?</i>	Yes
		<i>RAG¹⁴</i>	

¹⁴ Please refer to the latest version of the document “Definition of Traffic Light Colouring/System” for the corresponding definition of the traffic light system applied

Contents

Introduction	227
Executive summary	227
Background	228
Regulation	229
IFRS accounting analysis/disclosure comparison	229
Risk management strategy disclosures	229
Amount, timing and uncertainty of future cash flows	229
The effects of risk mitigation accounting on financial position and performance ...	234
Disclosures that fall away or are reduced under RMA.....	243
Applicable law and articles (accounting and/or regulatory).....	244
[Draft] Amendments to IFRS 7 Financial Instruments Disclosures – Risk mitigation accounting	244
The risk management strategy	245
The amount, timing and uncertainty of future cash flows	245
The effects of risk mitigation accounting on financial position and performance ...	245
IFRS 7 Financial Instruments: Disclosures – Hedge accounting.....	246
The risk management strategy	247
The amount, timing and uncertainty of future cash flows	247
The effects of risk mitigation accounting on financial position and performance ...	248
Option to designate a credit exposure as measured at fair value through profit or loss	250
Proposed treatment.....	252
Examples	253
Simple example	253
Scaled example.....	253
Operability concerns	254
Conclusion.....	255
Appendix/Supporting documentation	257

Introduction

Executive summary

The proposed Risk Mitigation Accounting (RMA) disclosures are intended to enhance transparency over repricing risk management and its financial statement effects; however, the extent to which existing information can be leveraged varies significantly by entities, depending on an entity's use of current hedge accounting approaches, systems infrastructure and the degree of centralisation of risk management activities. While certain inputs are conceptually aligned with information produced for existing IFRS 7 hedge accounting disclosures and for liquidity and IRRBB reporting frameworks, these are not consistently available in a form that can be readily repurposed for RMA. As a result, the overall level of complexity and implementation effort is expected to vary, with some areas (e.g. statement of financial position and profit or loss presentation) being more comparable to existing disclosures, but others requiring more fundamental change. In particular, several requirements are new in substance because they require information to be tracked and presented using RMA-specific constructs (notably IFRS 7.30K/30N/30O/30P on unexpected changes, cumulative information, dedicated roll-forward and maturity/recognition profile). These requirements are expected to necessitate new data aggregation, tagging, governance and controls, with associated implementation effort and ongoing reporting cost.

Against this backdrop, RMA disclosures - particularly the IFRS 7.30K sensitivity analysis - are not designed to align with, or reconcile to, Pillar III IRRBB disclosures. RMA typically applies to only a subset of repricing risk and does not capture unhedged or deliberately under-hedged exposures measured at amortised cost. Consequently, an IFRS 7.30K sensitivity will be misinterpreted as a "headline" IRRBB metric. The IASB should remove this disclosure requirement

In addition, increased granularity may give rise to commercially sensitive disclosures, for example where behavioural assumptions, modelling parameters or portfolio splits are implicitly revealed. Accordingly, disclosures should remain focused on explaining the accounting effects of RMA and the sources of any resulting misalignment and should be appropriately scoped and aggregated. In particular, the IASB should balance user information needs against the risk of commercially sensitive disclosure and operational burden for preparers, including through proportionality mechanisms and the use of cross-reference where substantively similar information is already provided on the same terms and timing.

Key messages:

- **Complexity / incremental change:** Overall disclosure complexity is expected to be broadly comparable to existing IFRS 7 hedge accounting disclosures and IRRBB reporting; IFRS 7.30K is the main incremental and most judgement-sensitive requirement.
- **Scope / interpretability (30K):** Introduction of RMA sensitivity disclosures would require banks to disclose a measure that is not applied in the steering of bank's internal IRRBB management and that provides a false reflection of a bank's IRRBB net repricing risk. Instead, readers of a bank's financial statement should continue to consider the information in the Pillar III disclosure and the IASB should remove this disclosure requirement.

- **Operability / new tracking & controls (30N/300/30P):** Several disclosures are new in substance and are expected to require new tracking, aggregation, governance and controls (unexpected changes and cumulative information; roll-forward; maturity/recognition profile), creating incremental implementation effort and ongoing reporting costs.
- **Proportionality / aggregation:** Disclosures should avoid unnecessary granularity and the IASB should not require entities to provide commercially sensitive information. The IASB should consider proportionality mechanisms (including relief where cost or effort would be disproportionate) and enable cross-reference to substantively similar IRRBB/Pillar III information provided on the same terms and timing; for decentralised frameworks, consolidation/aggregation principles should be clarified and disclosures should be required at consolidated financial statement level only, regardless of internal management granularity.

Background

The IASB has issued an Exposure Draft proposing amendments to IFRS 7 Financial Instruments: Disclosures to introduce specific presentation and disclosure requirements for entities applying risk mitigation accounting (RMA). The proposals aim to improve transparency around how entities manage repricing risk, how risk mitigation activities affect the amount, timing and uncertainty of future cash flows, and the impact of RMA on financial position and performance. In parallel, the IASB has published draft guidance illustrating how entities might meet the new disclosure objectives.

The amendments to IFRS 7 and the related implementation guidance are not yet final and remain subject to the IASB's due process. This impact assessment has been prepared based on the Exposure Draft and draft guidance as published and assesses the feasibility, usefulness and incremental impact of the proposed disclosures from the perspective of EBF banks.

Regulation

IFRS accounting analysis/disclosure comparison

This paper compares the proposed RMA disclosures (IFRS 7 paragraphs 30D–30P) with existing IFRS 7 hedge accounting disclosures (paragraphs 21A–24F), highlighting:

- where disclosures are aligned;
- where disclosures are new in substance; and
- where existing hedge accounting disclosures become redundant, reduced, or no longer relevant once RMA is applied.

While the IASB has not formally removed hedge accounting disclosures from IFRS 7, this paper assesses practical relevance for portfolios applying RMA. Hedge accounting disclosures remain applicable for portfolios that continue to apply hedge accounting.

Risk management strategy disclosures

Topic	RMA (IFRS 7.30I)	Hedge accounting (21A-22C)	Alignment assessment	Implications
<i>Nature of risk</i>	Repricing risk arising from underlying portfolios	Risk categories and hedged items	Largely aligned	Broader portfolio narrative required
<i>How risk is managed</i>	Mitigated and rate mitigated time horizon	Hedging instruments and hedge ratios	Shift emphasis in	Re-framing, not new data
<i>Measurement of exposure</i>	Net repricing risk exposure and aggregation level	Hedge effectiveness framework	Conceptual change	Effectiveness narrative falls away

The change is primarily narrative. RMA shifts the disclosure lens from how hedges are designated to how repricing risk is managed.

Amount, timing and uncertainty of future cash flows

Designated derivatives

Objective

IFRS 7.30J requires an entity to disclose qualitative and quantitative information that enables users of financial statements to evaluate the terms and conditions of designated derivatives and how those derivatives affect the amount, timing and uncertainty of the entity's future cash flows.

To meet this objective, the standard requires disclosure of:

- a profile of the timings of the nominal amounts of designated derivatives (for example, by repricing time bands); and
- the average fixed interest rate of the designated derivatives.

The focus of the disclosure is on enhancing transparency around the derivative instruments used within risk mitigation accounting (RMA), rather than on hedge designation mechanics or hedge effectiveness testing.

Comparison

The table below compares the proposed RMA disclosure with existing hedge accounting disclosures relating to derivative profiles and maturity information.

Requirements	RMA (IFRS 7.30J)	Hedge accounting (IFRS 7.23A-23C)	Nature of changes
<i>Maturity profile of notionals</i>	Required	Required	Largely aligned
<i>Average fixed rate</i>	Explicitly required	Required applicable	if Clarified emphasis
<i>Dynamic hedging exemption</i>	Not available	Explicit exemption	Exemption removed
<i>Disclosure focus</i>	Portfolio level transparency	Hedge relationship mechanics	Shift in emphasis

The following tables illustrate one way an entity might present the maturity profile and average fixed rate of designated derivatives to meet the requirements of IFRS 7.30J. This example is drawn from the IASB's draft guidance and is included for illustrative purposes only.

The Company held the following interest rate swaps as designated derivatives for the purposes of risk mitigation accounting, as at 31 December 20X2 and 31 December 20X1.								
	Maturity analysis as at 31 December 20X2				Maturity analysis as at 31 December 20X1			
	Less than 1 year	1-2 years	2-5 years	More than 5 years	Less than 1 year	1-2 years	2-5 years	More than 5 years
Interest Rate Swaps								
- Pay-fixed receive variable								
Nominal amount (CU million)	X	X	X	X	X	X	X	X

Average fixed rate	X%	X%	X%	X%	X%	X%	X%	X%
-								
Receive-fixed pay variable								
Nominal amount (CU million)	X	X	X	X	X	X	X	X
Average fixed rate	X%	X%	X%	X%	X%	X%	X%	X%

Key observations

- Banks generally view the required data items (notional amounts, maturity bands, fixed rates) as familiar, but the disclosure requires them to be presented in a specific RMA format (maturity profile of notionals by repricing time band and average fixed rate) that is not always currently disclosed in annual reports.
- For many banks, nominal amounts can be sourced from existing derivative systems and reporting; however, average fixed rates may not be system-generated in all cases and may require calculation/derivation (manual or controlled calculation logic) depending on infrastructure.
- The removal of the dynamic hedging exemption is viewed as a meaningful change for banks that previously relied on that exemption, increasing the need to provide consistent derivative profile information for dynamic portfolios.
- Practice across banks varies, some already disclose notional profiles and average rates by time bucket for certain hedge types, whereas others disclose totals without the same level of split (e.g., payer/receiver or time-bucketed averages).
- Overall, banks consider the disclosure feasible and generally not commercially sensitive at an aggregated level; remaining actions are focused on confirming data sourcing, calculation mechanics and consistent presentation. However, banks question the incremental usefulness of the average fixed rate disclosure, as it may offer limited additional insight and introduce complexity or commercially sensitive information.

Sensitivity analysis of repricing risk under risk mitigation accounting

Objective

IFRS 7.30K requires an entity to disclose a sensitivity analysis showing how the cash flows from, or the fair value of, the underlying portfolios might change as a result of reasonably possible changes in the mitigated rate.

The objective of this disclosure is to enable users of financial statements to understand how repricing risk, as managed through risk mitigation accounting (RMA), could affect future financial outcomes under different interest rate scenarios.

This disclosure differs conceptually from prudential or risk management stress testing in that its primary purpose is accounting transparency, rather than regulatory capital adequacy or risk appetite monitoring.

Comparison

The table below compares the proposed RMA sensitivity analysis with sensitivity-related disclosures typically provided under existing hedge accounting requirements and related risk disclosures.

Aspect	RMA (IFRS 7.30K)	Existing accounting/ related disclosures	hedge Nature of changes
<i>Metric</i>	Cash-flow and/or fair value sensitivity of underlying portfolios	Hedge ineffectiveness, IRRBB EVE/NII or similar	Conceptual shift
<i>Scope</i>	Underlying portfolios contributing to repricing risk	Hedge-designated items or regulatory portfolios	Broader population
<i>Shock types</i>	Parallel and non-parallel changes in the mitigated rate	Predominantly parallel shocks	Expanded scenarios/ Incremental modelling
<i>Objective</i>	Explain accounting impact of repricing risk	Prudential risk	Different user focus

The following table illustrates one way an entity might present the sensitivity analysis required by IFRS 7.30K. This example is drawn from the IASB's draft guidance and is included for illustrative purposes only.

Sensitivity analysis

The effects of reasonably possible changes in the mitigated rate could affect the cash flows from, and fair value of, underlying portfolios as follows (assuming no changes in how the expected cash flows are estimated):

Fair value sensitivity

Cash flow sensitivity

	31 December 20X2	31 December 20X1	31 December 20X2	31 December 20X1
	CU million	CU million	CU million	CU million
Parallel shock up by xxx bps	(X)	(X)	(X)	(X)
Parallel shock down by xxx bps	X	X	(X)	(X)
Shock of curve steepening	X	X	X	X
Shock of curve flattening	(X)	(X)	(X)	(X)
Other shock scenarios (to specify)	X	X	X	X

Key observations

- The proposed sensitivity analysis focuses on the economic exposure of underlying portfolios rather than hedge designation mechanics and is intended for accounting transparency (distinct from prudential stress testing and risk appetite metrics).
- Existing IRRBB/Pillar III sensitivities (EVE/NII or similar) provide useful context but are not designed to meet IFRS 7.30K, meaning many banks expect a new accounting-focused sensitivity table (cash-flow and/or fair value of underlying portfolios) to be required.
- Banks generally view fair value sensitivities as more achievable: parallel shocks are often already available through PV01-type reporting, while non-parallel shocks may require additional modelling overlays but are conceptually straightforward.
- Cash-flow sensitivities are less clear-cut for many banks: the requirement may be interpreted as sensitivities of underlying portfolio cash flows (e.g., mortgages and deposits), which may overlap with NII-style analysis but not exist in the precise form required, potentially requiring involvement from Treasury/IRRBB modelling teams and further interpretation.
- Banks noted that IFRS 7.30K is likely the most judgement sensitive disclosure: it may be perceived as a “headline” IRRBB sensitivity while in practice reflecting only RMA scope portfolios, creating interpretability

challenges when presented alongside comprehensive Pillar III IRRBB disclosures.

- Commercial sensitivity concerns increase with granularity: if sensitivities or underlying portfolio splits are required by repricing time bucket and underlying item (e.g., deposits separately) or reveal behavioural assumptions and model inputs (e.g., NMD parameters), banks will not disclose that level of detail.
- The RMA disclosures should be limited to the relevant accounting outcomes as the model itself is not fully aligned to the full IRRBB bank's exposure. As a result, introduction of RMA sensitivity disclosures would require banks to disclose a measure that is not applied in the steering of bank's internal IRRBB management and that provides a partial or potentially misleading signal when viewed in isolation. This raises fundamental questions as to whether the IFRS 7.30K sensitivity analysis achieves its stated objective of improving user understanding when presented alongside comprehensive Pillar III IRRBB disclosures.

The effects of risk mitigation accounting on financial position and performance

Underlying portfolios

Objective

IFRS 7.30L requires an entity to disclose, in a tabular format, information about the financial instruments included in the underlying portfolios that are aggregated to determine the net repricing risk exposure.

The objective of this disclosure is to enable users of financial statements to understand:

- the composition of the underlying portfolios contributing to repricing risk;
- how those portfolios are reflected in the statement of financial position; and
- the key inputs, assumptions and estimation techniques used to aggregate repricing risk.

Unlike hedge accounting disclosures, the focus is on the economic portfolios managed for repricing risk, rather than on hedge-designated items.

Comparison

The table below compares the proposed RMA disclosure with existing hedge accounting disclosures relating to hedged items and portfolio composition.

<i>Aspect</i>	RMA (IFRS 7.30L)	Hedge accounting (IFRS 7.24A-24B)	Nature of changes
<i>Population</i>	All portfolios contributing to repricing risk	Hedge-designated items only	Broader scope

<i>Measurement basis</i>	Nominal carrying amounts	and	Primarily amounts	carrying	Incremental
<i>Portfolio view</i>	Aggregated repricing portfolios	risk	Individual relationships	hedge	Conceptual shift
<i>Behavioural assumptions</i>	Explicit disclosure		Implicit or disclosed elsewhere		New transparency

The following table illustrates one way an entity might present information about the underlying portfolios used to determine the net repricing risk exposure, as required by IFRS 7.30L. This example is drawn from the IASB's draft guidance and is included for illustrative purposes only.

The following financial instruments were included in underlying portfolios aggregated to determine the net repricing risk exposure as at 31 December 20X2:

	Carrying Amount			Line item in the statement of financial position	Inputs, assumptions and estimation techniques
	Nominal amount CU million	Asset CU million	Liability CU million		
Central bank deposits	X	X	-	Balances at central banks	Contractual maturity
Unsecured loans	X	X	-	Loans and advances to customers	Expected maturity ^a
Customer demand deposits	X	-	(X)	Customer deposits	Expected maturity ^b
Future transaction – retail mortgage	X	n/a	-	n/a	Expected maturity ^c
Hedged exposures (see below)	n/a	-	(X)	Debt securities in issue	n/a

The hedged exposure relates to a fair value hedging relationship.

(The Company provides the information required by paragraphs 24A and 24B(a) of IFRS 7 regarding its fair value hedged exposure.)

Additional information relating to the inputs, assumptions and estimation techniques used to aggregate repricing risk by repricing time band:

- a. Internal models are used to consider the effects of potential early repayments based on past experience and management forecasts.
- b. Internal models are used to identify the portion of the demand deposits that are managed as fixed-rate exposures for a specified period, which is determined based on the deposit beta observed in the past 10 years.
- c. Includes highly probable pipeline retail mortgages based on information relating to the current mortgage offers and acceptance, past experience of similar products and management forecasts.

Key observations

- The disclosure represents a shift from hedge-relationship reporting to portfolio-level transparency, requiring in one place the instruments included in underlying portfolios, their balance sheet line items, nominal and carrying amounts, and the inputs / assumptions / techniques used to aggregate repricing risk by time band.
- Many banks expect partial building blocks to exist in current reporting (e.g., fair value hedge tables, liquidity reporting, risk disclosures), but the RMA requirement differs because it requires the elements to be presented together for the full RMA population rather than only hedge-designated items.
- Banks anticipate practical challenges around
 - confirming scope of portfolios covered under RMA,
 - ensuring consistent availability of nominal amounts alongside carrying values, and
 - aligning aggregation across systems and reporting lines.
- The explicit inclusion of behavioural assumptions (e.g., expected maturities of non-maturing deposits, prepayment assumptions) is a key change and not welcome by banks.
- Commercial sensitivity will arise if disclosures are required at overly granular levels (e.g., per line item or with detailed parameters such as NMD/CPR assumptions), even if data exists internally; as such banks reject disclosures revealing proprietary modelling information.
- Overall, banks consider the disclosure useful for explaining how net repricing risk exposure is constructed. However, banks reject providing disclosures that are commercially sensitive and request the IASB to state explicitly (e.g. in the Basis for Conclusions) that banks have the discretion not to provide the disclosures when they consider the disclosures to violate the commercial sensitivity of the information.

Designated derivatives

Objective

IFRS 7.30M requires an entity to disclose, in a tabular format, information about designated derivatives used in risk mitigation accounting.

The objective of this disclosure is to enable users of financial statements to understand:

- the nature and scale of derivatives designated for risk mitigation accounting;
- how those derivatives are reflected in the statement of financial position; and
- how changes in their fair value contribute to the measurement of the risk mitigation adjustment.

The disclosure focuses on the derivative instruments themselves, rather than on hedge effectiveness or hedge designation mechanics.

Comparison

The table below compares the proposed RMA disclosure with existing hedge accounting disclosures relating to hedging instruments.

Aspect	RMA (IFRS 7.30M)	Hedge accounting (24A)	Nature of changes
<i>Carrying amount</i>	Required	Required	Aligned
<i>Statement of financial position line items</i>	Required	Required	Aligned
<i>Notional amount</i>	Required	Required	Aligned
<i>Fair value changes used</i>	Basis for risk mitigation adjustment	Basis for hedge ineffectiveness	Measurement lens changes
<i>Population</i>	RMA-designated derivatives	Hedge-designated derivatives	Broader application

The following table illustrates one way an entity might present information about designated derivatives used in risk mitigation accounting, as required by IFRS 7.30M. This example is drawn from the IASB's draft guidance and is included for illustrative purposes only.

The amounts relating to interest rate swaps included as designated derivatives for the purposes of risk mitigation accounting as at 31 December 20X2 were as follows:						
			Carrying amount		Line item in the statement of financial position	Change in fair value used as the basis for measuring the risk mitigation adjustment
		Nominal amount	Asset	Liability		
CU-denominated interest rate swaps						
(in million)	CU	X	X	-	Derivative assets	(X)

FCU-denominated interest rate swaps (in million)	CU	X	-	(X)	Derivative liability	X
---	----	---	---	-----	----------------------	---

Key observations

- The quantitative items required (carrying amounts, notional amounts, balance sheet line items, fair value change used) are broadly aligned with existing hedge accounting and derivatives disclosures, with the primary change being the narrative lens (from hedge ineffectiveness to contribution to the risk mitigation adjustment).
- The main implementation question raised by banks is typically population definition and disaggregation: whether derivatives designated for RMA can be clearly identified and separated from the wider derivatives population within existing reporting frameworks.
- Some banks noted additional practical questions such as whether foreign-currency denominated instruments require separate presentation; while not explicitly required, disaggregation considerations may arise depending on internal designation practices and materiality.
- Overall, banks consider the disclosure achievable and useful, with remaining actions centred on tagging/identification of the RMA derivative population and consistent data sourcing rather than fundamental data availability.

Measurement and evolution of the risk mitigation adjustment (IFRS 7.30N)

Objective

IFRS 7.30N requires an entity to disclose information that enables users of financial statements to understand how the risk mitigation adjustment has been measured.

In particular, the disclosure is intended to explain:

- the entity's approach to capturing the effects of unexpected changes in the financial instruments included in the underlying portfolios during the period; and
- gains or losses on designated derivatives that are not included in the risk mitigation adjustment, both for the reporting period and cumulatively, together with the relevant line items in profit or loss.

This disclosure should be read together with IFRS 7.30O and 30P, which address reconciliation and lifecycle presentation of the risk mitigation adjustment.

Comparison

The table below compares the proposed RMA disclosure with existing hedge accounting disclosures relating to hedge ineffectiveness and derivative gains or losses.

Feature	RMA (IFRS 7.30N)	Hedge accounting disclosures	Nature of changes
<i>Measurement focus</i>	Risk mitigation adjustment	Hedge ineffectiveness	New accounting construct
<i>Unexpected changes</i>	Explicitly identified and explained	Not separately disclosed	New in substance
<i>Continued vs. discontinued</i>	Required	Not required	New
<i>Cumulative information</i>	Required	Generally period-based	Expanded scope
<i>Presentation</i>	Dedicated disclosure	Embedded across notes	New transparency

The following table illustrates how an entity might present information explaining how the risk mitigation adjustment has been measured, including the treatment of gains or losses not included in the adjustment. This example is drawn from the IASB's draft guidance and is included for illustrative purposes only.

Risk mitigation accounting					
	Continued	Discontinued	Total	Cumulative	Line item in the statement of profit or loss
	CU million	CU million	CU million	CU million	
Gains or losses on the designated derivatives not included in risk mitigation adjustment					
Effects of unexpected changes ^a					
Total misalignment for					
	(X)	(X)	(X)	(X)	Net trading income
	(X)	(X)	(X)	(X)	Net trading income
	X	X	X	X	

Ineffectiveness

the year ending 31 December 20X2	
a. As at 31 December 20X2, the Company reassessed its net repricing risk exposure based on the latest expectations as at that time and identified significant changes in the repayment profile of a few portfolios of mortgage loans. The Company captured the effect of these unexpected changes by measuring the risk mitigation adjustment excess, which resulted in CU X million previously reported in risk mitigation adjustment being recognised in profit or loss as at 31 December 20X2.	

As at 31 December 20X2, the Company had a total risk mitigation adjustment of CU X million that will be recognised in profit or loss in future reporting periods, providing protection against future interest variabilities.

Maturity analysis as at 31 December 20X2					
	Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Risk mitigation adjustment – continued	X	X	X	X	X
Risk mitigation adjustment – discontinued	X	X	X	X	X
Total risk mitigation adjustment	X	X	X	X	X

Key observations

- Banks view this as a new disclosure in substance because it introduces a specific requirement to explain how the risk mitigation adjustment is measured, including the effects of unexpected changes, a split between continued vs discontinued application, and cumulative information that is not typically tracked in existing hedge accounting disclosures.
- Although related information exists in current hedge accounting disclosures (e.g., hedge ineffectiveness, derivative gains/losses), IFRS 7.30N requires those effects to be identified, explained and contextualised within the measurement of the risk mitigation adjustment, rather than disclosed across multiple tables/notes.
- “Unexpected changes” were interpreted by banks to include portfolio composition changes, and re-measurement/re-balancing activity; meeting the

requirement may therefore require new tracking, tagging and governance processes.

- In regard to the disclosure requirement IFRS 7.30N(d), the IASB should clarify that it is the future NII (which will be recognised in P&L) that is required and not the present value of those NII-cashflows since the risk mitigation adjustment is a PV figure that represents the present value of future NII cashflows.
- A practical implementation approach discussed by some banks is to introduce clearer internal tagging/classification (e.g., new business vs rebalancing activity) to support consistent identification and explanation of unexpected changes over time, although this would require additional controls.
- Overall, banks consider the disclosure potentially useful for explaining the drivers of the RMA adjustment but note that it represents a genuine incremental requirement with the key gap being cumulative tracking and consistent continued/discontinued classification and banks are concerned with the additional burden and cost of providing this.

Reconciliation of risk mitigation adjustment (IFRS 7.30O)

Objective

IFRS 7.30O requires an entity to disclose, in a tabular format, a reconciliation from the opening to the closing balance of the risk mitigation adjustment.

The reconciliation must show separately:

- gains or losses on designated derivatives that have been recognised as part of the risk mitigation adjustment during the period;
- the amount of the risk mitigation adjustment recognised in profit or loss during the reporting period; and
- any reduction in the risk mitigation adjustment resulting from excess amounts recognised in profit or loss.

This disclosure should be read together with:

- IFRS 7.30N, which explains how the risk mitigation adjustment is measured; and
- IFRS 7.30P, which requires a distinction between continued and discontinued application of risk mitigation accounting.

Comparison

The table below compares the proposed reconciliation requirement with existing hedge accounting disclosures that provide partial roll-forward or reserve-based information.

Aspect	RMA (IFRS 7.30O)	Hedge accounting analogue	Assessment
<i>Roll-forward</i>	Mandatory reconciliation	Partial or implicit	Expanded requirements

<i>Measurement basis</i>	Risk mitigation adjustment	OCI ineffectiveness	reserves/	New construct
<i>Excess recognition</i>	Explicitly identified	Not tracked	separately	New transparency
<i>Presentation</i>	Dedicated table	Dispersed notes	across	New clarity

The following table illustrates one way an entity might present the reconciliation of the risk mitigation adjustment in accordance with IFRS 7.300. This example is drawn from the IASB's draft guidance and is included for illustrative purposes only.

Risk mitigation adjustment			
	Risk mitigation accounting – continued	Risk mitigation accounting – discontinued	Total
	Carrying amount CU million	Carrying amount CU million	Carrying amount CU million
1 January 20X1	X	X	X
Fair value gains or losses	X	n/a	X
Amounts recognized in profit or loss	(X)	(X)	(X)
Other adjustment – excess recognized	(X)	(X)	(X)
31 December 20X1	X	X	X

Key observations

- Banks view the roll-forward as a new disclosure requiring a dedicated reconciliation of the risk mitigation adjustment (opening to closing), including gains/losses included in the adjustment, amounts recognised in profit or loss, and excess amounts recognised in profit or loss.
- While conceptually similar to reconciliations prepared elsewhere (e.g., OCI reserve movements), many banks do not currently track and label movements in a way that aligns with the RMA construct, particularly the required split between continued vs discontinued application.
- Banks expect feasibility to depend less on raw data availability and more on establishing new tagging, aggregation logic and governance to ensure consistent roll-forward reporting over time.
- Views on usefulness were mixed: the reconciliation can improve transparency over the evolution of the RMA balance, but banks noted that benefits should

be weighed against the additional operational complexity of new tracking requirements.

- Banks expect these disclosures to create incremental operational burden, including new data aggregation, tagging, governance and control requirements, resulting in additional implementation and ongoing reporting costs.

Maturity profile of the risk mitigation adjustment (IFRS 7.30P)

Objective

IFRS 7.30P requires an entity to distinguish between risk mitigation adjustments that relate to the continuing application of risk mitigation accounting and those that relate to discontinued application, and to disclose information that enables users of financial statements to understand the expected timing and profile of recognition in profit or loss of the accumulated risk mitigation adjustment.

The objective of this disclosure is to provide transparency over how the risk mitigation adjustment will unwind over time and how it relates to the entity's repricing risk management strategy, complementing the measurement and reconciliation disclosures in IFRS 7.30N and 30O.

Comparison

Existing hedge accounting disclosures do not require a maturity-based presentation of accumulated hedge-related balances that is directly comparable to the proposed RMA disclosure. While cash flow hedge reserves are presented within equity and their movements disclosed, they are not analysed by expected recognition profile in profit or loss nor split between continued and discontinued application of an accounting model.

Similarly, liquidity risk maturity analyses are prepared for contractual cash flows and do not represent the expected amortisation or release of an accounting adjustment such as the risk mitigation adjustment. As a result, there is no direct analogue to the IFRS 7.30P disclosure in current hedge accounting or risk management reporting.

Key observations

- Banks view the IFRS 7.30P disclosure as new in substance, as it introduces a maturity-based presentation of the risk mitigation adjustment that is not currently required under hedge accounting or liquidity risk disclosure frameworks.
- Implementation is expected to focus on defining a consistent methodology to allocate the accumulated RMA balance across time buckets, reflecting the expected timing of recognition in profit or loss and aligned with the distinction between continued and discontinued application.
- Banks noted that usefulness will depend on clear linkage between the maturity profile, the underlying repricing risk management strategy, and the explanation of how and when the adjustment will affect future performance.

Disclosures that fall away or are reduced under RMA

Disclosure area Status after RMA adoption

<i>Dynamic hedging exemption (23C)</i>	Obsolete
<i>Hedge effectiveness narrative</i>	Superseded
<i>Hedge ineffectiveness P&L tables</i>	Replaced by disclosures explaining misalignment, unexpected changes and cumulative impacts
<i>Cash flow hedge OCI roll-forwards</i>	No longer applicable for RMA portfolios
<i>Risk-category disaggregation</i>	Reduced emphasis – portfolio-based aggregation replaces risk-category focus
<i>Hedged item vs hedging instrument split</i>	Replaced

Applicable law and articles (accounting and/or regulatory)

[Draft] Amendments to IFRS 7 Financial Instruments Disclosures – Risk mitigation accounting

- ED 30D An entity that applies risk mitigation accounting in accordance with Chapter 7 of IFRS 9 shall apply the presentation and disclosure requirements in paragraphs 30E–30P.
- ED 30E An entity shall present separately from other line items:
- (a) the risk mitigation adjustment recognised either as part of the entity's assets (when it has a debit balance) or as part of its liabilities (when it has a credit balance) in the statement of financial position; and
 - (b) the amount of the risk mitigation adjustment recognised in profit or loss during the reporting period in the statement of comprehensive income.
- ED 30F The risk mitigation accounting disclosures an entity makes in accordance with paragraphs 30G–30P shall enable users of its financial statements to understand:
- (a) how the entity manages repricing risk according to its risk management strategy;
 - (b) how the entity's risk management activities could affect the amount, timing and uncertainty of its future cash flows; and
 - (c) how applying risk mitigation accounting has affected the entity's statement of financial position and statement of comprehensive income.
- ED 30G To meet the objectives set out in paragraph 30F, an entity shall apply the principles in paragraph 41 of IFRS 18 Presentation and Disclosure in Financial Statements when determining the most appropriate way to aggregate or disaggregate information in its financial statements, including in the notes.
- ED 30H An entity shall provide the required disclosures in a single note or in a separate section in its financial statements. However, an entity is not required to duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management

commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

The risk management strategy

ED 30I An entity shall explain its risk management strategy for managing repricing risk. This explanation should enable users of financial statements to understand:

- (a) how the entity's exposure to repricing risk arises, including a description of the nature and characteristics of the underlying portfolios used to determine the net repricing risk exposure;
- (b) how the entity manages repricing risk, including details about the mitigated rate and mitigated time horizon; and
- (c) how the entity determines the net repricing risk exposure, including the level at which it is determined and the measures the entity uses to quantify repricing risk.

The amount, timing and uncertainty of future cash flows

ED 30J An entity shall disclose qualitative and quantitative information that enables users of financial statements to evaluate the terms and conditions of designated derivatives and how they affect the amount, timing and uncertainty of the entity's future cash flows. To meet this requirement, an entity shall provide a breakdown that discloses:

- (a) a profile of the timings of the nominal amounts of the designated derivatives (for example, by repricing time bands); and
- (b) the average fixed interest rate of the designated derivatives.

ED 30K An entity shall disclose a sensitivity analysis showing how the cash flows from, or the fair value of, the underlying portfolios might change as a result of reasonably possible changes in the mitigated rate.

The effects of risk mitigation accounting on financial position and performance

ED 30L An entity shall disclose, in a tabular format, information about the financial instruments included in the underlying portfolios aggregated to determine the net repricing risk exposure, including:

- (a) the carrying amounts of financial assets and financial liabilities, and the nominal amounts of future transactions;
- (b) the line items in the statement of financial position in which the financial instruments are included (or will be included in the case of future transactions);
- (c) qualitative information about the inputs, assumptions and estimation techniques the entity used to aggregate the repricing risk arising from underlying portfolios by repricing time bands; and
- (d) information about any hedged exposures.

ED 30M An entity shall disclose information that enables users of financial statements to understand how the risk mitigation adjustment has been measured, including:

- (a) the entity's approach to capturing the effects of unexpected changes in the financial instruments included in underlying portfolios during the period;
- (b) the gains or losses on the designated derivatives not recognised as part of the risk mitigation adjustment, both cumulatively and for the reporting period;
- (c) the line items in the statement of comprehensive income in which the gains or losses described in (b) are included; and
- (d) the expected profile for recognising the amount accumulated as the risk mitigation adjustment in profit or loss.

ED 300 An entity shall disclose, in a tabular format, a reconciliation from the opening to the closing balance of the risk mitigation adjustment, showing separately:

- (a) the gains or losses on the designated derivatives that have been recognised as part of the risk mitigation adjustment during the period;
- (b) the amount of the risk mitigation adjustment that has been recognised in profit or loss during the reporting period; and
- (c) the amount of any reduction in the risk mitigation adjustment due to an excess amount recognised in profit or loss in accordance with paragraph 7.4.14 of IFRS 9.

ED 30P When an entity discloses the information required by paragraphs 30N–30O, it shall distinguish between:

- (a) risk mitigation adjustments that relate to the continuing application of risk mitigation accounting; and
- (b) risk mitigation adjustments that relate to risk mitigation accounting that has been discontinued.

IFRS 7 Financial Instruments: Disclosures – Hedge accounting

7.21A An entity shall apply the disclosure requirements in paragraphs 21B–24F for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about:

- (a) an entity's risk management strategy and how it is applied to manage risk;
- (b) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and
- (c) the effect that hedge accounting has had on the entity's statement of financial position, statement of comprehensive income and statement of changes in equity.

7.21B An entity shall present the required disclosures in a single note or separate section in its financial statements. However, an entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

- 7.21C When paragraphs 22A–24F require the entity to separate by risk category the information disclosed, the entity shall determine each risk category on the basis of the risk exposures an entity decides to hedge, and for which hedge accounting is applied. An entity shall determine risk categories consistently for all hedge accounting disclosures.
- 7.21D To meet the objectives in paragraph 21A, an entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed. However, an entity shall use the same level of aggregation or disaggregation it uses for disclosure requirements of related information in this IFRS and IFRS 13 Fair Value Measurement.

The risk management strategy

- 7.22A An entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example):
- (a) how each risk arises
 - (b) how the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why
 - (c) the extent of risk exposures that the entity manages.
- 7.22B To meet the requirements in paragraph 22A, the information should include (but is not limited to) a description of:
- (a) the hedging instruments that are used (and how they are used) to hedge risk exposures;
 - (b) how the entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness; and
 - (c) how the entity establishes the hedge ratio and what the sources of hedge ineffectiveness are.
- 7.22C When an entity designates a specific risk component as a hedged item (see paragraph 6.3.7 of IFRS 9) it shall provide, in addition to the disclosures required by paragraphs 22A and 22B, qualitative or quantitative information about:
- (a) how the entity determined the risk component that is designated as the hedged item (including a description of the nature of the relationship between the risk component and the item as a whole); and
 - (b) how the risk component relates to the item in its entirety (for example, the designated risk component historically covered on average 80 per cent of the changes in fair value of the item as a whole).

The amount, timing and uncertainty of future cash flows

- 7.23A Unless exempted by paragraph 23C, an entity shall disclose by risk category quantitative information to allow users of its financial statements to evaluate

the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity.

- 7.23B To meet the requirement in paragraph 23A, an entity shall provide a breakdown that discloses:
- (a) a profile of the timing of the nominal amount of the hedging instrument; and
 - (b) if applicable, the average price or rate (for example strike or forward prices etc) of the hedging instrument.
- 7.23C In situations in which an entity frequently resets (i.e. discontinues and restarts) hedging relationships because both the hedging instrument and the hedged item frequently change (i.e. the entity uses a dynamic process in which both the exposure and the hedging instruments used to manage that exposure do not remain the same for long - such as in the example in paragraph B6.5.24(b) of IFRS 9) the entity:
- (a) is exempt from providing the disclosures required by paragraphs 23A and 23B.
 - (b) shall disclose:
 - (i) information about what the ultimate risk management strategy is in relation to those hedging relationships;
 - (ii) a description of how it reflects its risk management strategy by using hedge accounting and designating those particular hedging relationships; and
 - (iii) an indication of how frequently the hedging relationships are discontinued and restarted as part of the entity's process in relation to those hedging relationships.
- 7.23D An entity shall disclose by risk category a description of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term.
- 7.23E If other sources of hedge ineffectiveness emerge in a hedging relationship, an entity shall disclose those sources by risk category and explain the resulting hedge ineffectiveness.
- 7.23F For cash flow hedges, an entity shall disclose a description of any forecast transaction for which hedge accounting had been used in the previous period, but which is no longer expected to occur.

The effects of risk mitigation accounting on financial position and performance

- 7.24A An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):
- (a) the carrying amount of the hedging instruments (financial assets separately from financial liabilities);
 - (b) the line item in the statement of financial position that includes the hedging instrument;
 - (c) the change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period; and

- (d) the nominal amounts (including quantities such as tonnes or cubic metres) of the hedging instruments.

7.24B

An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows:

- (a) for fair value hedges:
- (i) the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);
 - (ii) the accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);
 - (iii) the line item in the statement of financial position that includes the hedged item;
 - (iv) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period; and
 - (v) the accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses in accordance with paragraph 6.5.10 of IFRS 9.
- (b) for cash flow hedges and hedges of a net investment in a foreign operation:
- (i) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period (i.e. for cash flow hedges the change in value used to determine the recognised hedge ineffectiveness in accordance with paragraph 6.5.11(c) of IFRS 9);
 - (ii) the balances in the cash flow hedge reserve and the foreign currency translation reserve for continuing hedges that are accounted for in accordance with paragraphs 6.5.11 and 6.5.13(a) of IFRS 9; and
 - (iii) the balances remaining in the cash flow hedge reserve and the foreign currency translation reserve from any hedging relationships for which hedge accounting is no longer applied.

7.24C

An entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows:

- (a) for fair value hedges:
- (i) hedge ineffectiveness – i.e. the difference between the hedging gains or losses of the hedging instrument and the hedged item – recognised in profit or loss (or other comprehensive income for hedges of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9); and
 - (ii) the line item in the statement of comprehensive income that includes the recognized hedge ineffectiveness.
- (b) for cash flow hedges and hedges of a net investment in a foreign operation:
- (i) hedging gains or losses of the reporting period that were recognized in other comprehensive income;

- (ii) hedge ineffectiveness recognised in profit or loss;
- (iii) the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness;
- (iv) the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment (see IFRS 18) (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected profit or loss);
- (v) the line item in the statement of comprehensive income that includes the reclassification adjustment (see IFRS 18); and
- (vi) for hedges of net positions, the hedging gains or losses recognised in a separate line item in the statement of comprehensive income (see paragraph 6.6.4 of IFRS 9).

7.24D When the volume of hedging relationships to which the exemption in paragraph 23C applies is unrepresentative of normal volumes during the period (i.e. the volume at the reporting date does not reflect the volumes during the period) an entity shall disclose that fact and the reason it believes the volumes are unrepresentative.

7.24E An entity shall provide a reconciliation of each component of equity and an analysis of other comprehensive income in accordance with IAS 1 that, taken together:

- (a) differentiates, at a minimum, between the amounts that relate to the disclosures in paragraph 24C(b)(i) and (b)(iv) as well as the amounts accounted for in accordance with paragraph 6.5.11(d)(i) and (d)(iii) of IFRS 9;
- (b) differentiates between the amounts associated with the time value of options that hedge transaction related hedged items and the amounts associated with the time value of options that hedge time-period related hedged items when an entity accounts for the time value of an option in accordance with paragraph 6.5.15 of IFRS 9; and
- (c) differentiates between the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge transaction related hedged items, and the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge time-period related hedged items when an entity accounts for those amounts in accordance with paragraph 6.5.16 of IFRS 9.

7.24F An entity shall disclose the information required in paragraph 24E separately by risk category. This disaggregation by risk may be disclosed in the notes to the financial statements.

Option to designate a credit exposure as measured at fair value through profit or loss

7.24G If an entity designated a financial instrument, or a proportion of it, as measured at fair value through profit or loss because it uses a credit derivative to manage the credit risk of that financial instrument it shall disclose:

- (a) for credit derivatives that have been used to manage the credit risk of financial instruments designated as measured at fair value through profit or loss in accordance with paragraph 6.7.1 of IFRS 9, a reconciliation of each of the nominal amount and the fair value at the beginning and at the end of the period;
- (b) the gain or loss recognised in profit or loss on designation of a financial instrument, or a proportion of it, as measured at fair value through profit or loss in accordance with paragraph 6.7.1 of IFRS 9; and
- (c) on discontinuation of measuring a financial instrument, or a proportion of it, at fair value through profit or loss, that financial instrument's fair value that has become the new carrying amount in accordance with paragraph 6.7.4 of IFRS 9 and the related nominal or principal amount (except for providing comparative information in accordance with IFRS 18, an entity does not need to continue this disclosure in subsequent periods).

Uncertainty arising from interest rate benchmark reform

7.24H For hedging relationships to which an entity applies the exceptions set out in paragraphs 6.8.4–6.8.12 of IFRS 9 or paragraphs 102D–102N of IAS 39, an entity shall disclose:

- (a) the significant interest rate benchmarks to which the entity's hedging relationships are exposed;
- (b) the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;
- (c) how the entity is managing the process to transition to alternative benchmark rates;
- (d) a description of significant assumptions or judgements the entity made in applying these paragraphs (for example, assumptions or judgements about when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows); and
- (e) the nominal amount of the hedging instruments in those hedging relationships.

Proposed treatment

An overall assessment is provided in section 6.

Examples

This paper excludes simple and scaled examples, as it is designed to address the intended disclosure requirements in the Exposure Draft on Risk Mitigation Accounting.

Simple example

Please refer to section 4.

Scaled example

Please refer to section 4.

Operability concerns

In the first place, RMA disclosures on sensitivity analysis and where they infringe on an entity's commercial sensitivity should not be required. Based on the analysis in Section 2, the main operability considerations relate to the availability of underlying data items and the need to define, evidence and control RMA-specific constructs consistently over time. Key operability concerns include:

- **IFRS 7.30K (sensitivity analysis):** establishing an accounting-focused sensitivity methodology (cash-flow and/or fair value), governance over scenario design (including non-parallel shocks), and a clear articulation of scope and limitations to avoid misinterpretation alongside Pillar III IRRBB disclosures. However, this is not a useful measure and should be removed.
- **IFRS 7.30L (underlying portfolios):** defining the RMA population and ensuring consistent aggregation across systems, including the availability of nominal amounts alongside carrying amounts and consistent presentation of balance sheet line items and key behavioural assumptions.
- **IFRS 7.30N (measurement):** identifying and explaining "unexpected changes" and maintaining cumulative information, which is expected to require new tagging, audit trails and controls.
- **IFRS 7.30O (roll-forward) and 30P (maturity/recognition profile):** producing a robust roll-forward and allocating the accumulated risk mitigation adjustment to time bands in a way that is consistent with the entity's approach to RMA and with disclosures in 30N.
- **Aggregation / commercial sensitivity and group reporting:** clarifying an appropriate level of aggregation (including for behavioural assumptions) to meet disclosure objectives without revealing commercially sensitive information and clarifying consolidation/aggregation principles for decentralised RMA frameworks.

Conclusion

The proposed RMA disclosures aim to enhance transparency about repricing risk management and the accounting effects of applying RMA. However, the extent to which existing information can be leveraged varies by entities, depending on an entity's use of current hedge accounting approaches, system architecture and the level of centralisation of risk management activities. While certain inputs are conceptually aligned with information already produced for existing IFRS 7 hedge accounting disclosures and for risk and regulatory reporting, these are not consistently available in a form that can be readily repurposed for RMA. In particular, several requirements are new in substance because they require information to be generated, tracked and presented in RMA-specific constructs rather than through relationship-based hedge accounting disclosures (notably IFRS 7.30N–30P), implying incremental implementation effort, new aggregation logic and enhanced governance and controls.

Interpretability and scope (IFRS 7.30K):

Because RMA applies only to a subset of repricing risk and does not capture unhedged or deliberately under-hedged exposures measured at amortised cost, an IFRS 7.30K sensitivity may be viewed as a “headline” IRRBB metric despite reflecting only RMA-scope portfolios. The IASB should therefore remove this disclosure requirement.

Incremental requirements and operability:

Beyond IFRS 7.30K, incremental effort is expected where entities do not currently track or present information in the form required for RMA. This includes new portfolio-level aggregation and disclosure of key assumptions (30L), identification and explanation of unexpected changes and cumulative information (30N), a dedicated roll-forward of the risk mitigation adjustment (30O), and allocation of the accumulated adjustment to a maturity/recognition profile (30P).

- ~~30K: accounting focused sensitivity information for underlying portfolios.~~
- 30L: portfolio composition, balance sheet mapping and key inputs/assumptions used to aggregate repricing risk.
- 30N: identification and explanation of unexpected changes, including cumulative information.
- 30O: roll-forward of the risk mitigation adjustment (continued vs discontinued).
- 30P: maturity/recognition profile for the accumulated risk mitigation adjustment.

Implementing these disclosures is expected to require new data aggregation, tagging, governance and control processes, resulting in incremental implementation effort and ongoing reporting costs.

Clarifications and proportionality:

The IASB should clarify IFRS 7.30N(d) to confirm that the “expected profile” disclosure refers to the future net interest income effects to be recognised in profit or loss, rather than the present value of those cash flows (given the risk mitigation adjustment is itself a present value measure). In addition, to support proportionality and reduce the risk of commercially sensitive disclosure, requirements should be appropriately scoped and aggregated, avoid unnecessary granularity and enable cross-reference to substantively

similar information provided on the same terms and timing; the IASB could also consider explicit relief where cost or effort would be disproportionate. However, banks reject providing disclosures that are commercially sensitive and request the IASB to state explicitly (e.g. in the Basis for Conclusions) that banks have the discretion not to provide the disclosures when they consider the disclosures to violate the commercial sensitivity of the information.

Group-level reporting:

For groups with decentralised RMA/NRRE models, the Exposure Draft should clarify consolidation and aggregation principles for IFRS 7 RMA disclosures (including 30K), balancing comparability against volume and operational burden and explaining how group disclosures should reflect heterogeneous entity-level modelling frameworks and intragroup arrangements; disclosures should be required at consolidated financial statement level only, regardless of internal management granularity. Please refer to the separate WG7 RMA Eligibility of Intragroup Instruments paper which sets out the consolidated-FS implications of intragroup structures/arrangements.

Appendix/Supporting documentation

This table below summarizes the proposed RMA disclosure requirements (paragraphs 30D–30P) compared to existing disclosure requirements under existing IFRS 7, highlighting areas of alignment, presentation change, and disclosures that are new in substance.

Reference	Disclosure focus	Status assessment	High level rationale	Where existing tables can be found
<i>IFRS 7.30I</i>	Risk management strategy for repricing risk and use of RMA	Presentation change	Existing hedge accounting disclosures already explain interest rate risk management, but focus shifts from hedge designation to portfolio level repricing risk management	Risk Report – Non trading Market Risk Exposures; Interest Rate Risk in the Banking Book (IRRBB) narrative
<i>IFRS 7.30J</i>	Amount, timing and uncertainty of future cash flows affected by RMA	Largely aligned	Liquidity and maturity analyses provide relevant building blocks; however, derivative-specific maturity profiles and average fixed rates would need to be assembled and presented in an IFRS 7.30J RMA format (including appropriate aggregation).	Risk Report – Liquidity Risk Exposure: contractual maturity analysis of assets and liabilities (page 185)
<i>IFRS 7.30K</i>	Quantitative information on repricing risk exposure	Related but not aligned	IRRBB stress testing provides quantitative exposure measures; however, the aggregation level, accounting basis and linkage to RMA portfolios differ. Accordingly, IFRS 7.30K is expected to require a new accounting-focused sensitivity analysis for underlying portfolios, with clear scope/limitations to user	Risk Report – IRRBB stress testing tables (page 176)

				interpretability alongside Pillar III IRRBB disclosures.	
<i>IFRS 7.30L</i>	Carrying amounts of assets and liabilities contributing to repricing risk	Partially aligned		Fair value hedge tables provide carrying amounts for hedge-designated items; however, IFRS 7.30L would require a portfolio-based presentation for the RMA population (including nominal amounts and key inputs/assumptions used to aggregate repricing risk).	Note 35 – Derivatives: Fair value hedge accounting (page 514)
<i>IFRS 7.30M</i>	Information on designated derivatives used in RMA	Largely aligned		Existing derivatives already provide notional amounts, carrying values and fair value movements	Note 35 – Derivatives (general derivatives and hedge accounting tables)
<i>IFRS 7.30N</i>	Effect of unexpected changes on the risk mitigation adjustment	New substance	in	No current disclosure tracks “unexpected changes”, cumulative effects or misalignment drivers within an RMA measurement construct; therefore, the IFRS 7.30N disclosure would be new in substance and would require new tagging, audit trail and controls.	Closest analogue: Hedge ineffectiveness disclosures in Note 35; no direct equivalent table
<i>IFRS 7.30O</i>	Reconciliation of the risk mitigation adjustment	New substance	in	Requires a dedicated roll-forward of the risk mitigation adjustment, including movements recognised in profit or loss and reductions for excess amounts, and a split between	No existing table; partial inputs from Statement of Changes in Equity (page 389)

					continued vs discontinued application. There is no direct existing disclosure of an RMA balance and its movements, so the IFRS 7.30O disclosure would be new in substance.	
<i>IFRS 7.30P</i>	Maturity profile of the risk mitigation adjustment	New substance	in	Introduces a maturity/recognition profile for the accumulated risk mitigation adjustment (i.e. expected timing of recognition in profit or loss) and a continued/discontinued distinction. Existing liquidity or OCI roll-forward disclosures are not directly transferable, so the IFRS 7.30P disclosure would be new in substance.	No existing table; liquidity maturity disclosures provide only indirect reference	