

IASB RISK MITIGATION ACCOUNTING RESPONSES TO QUESTIONS 1-10

Question 1 - Objective and scope of risk mitigation accounting (Section 7.1)

IASB Question

The IASB proposes that:

(a) the objective of risk mitigation accounting be for financial statements to represent the economic effect of an entity's risk management activities if the entity manages repricing risk on a net basis.

(b) risk mitigation accounting be applied on a voluntary basis. However, an entity would be permitted to apply risk mitigation accounting if, and only if, the entity mitigates repricing risk on a net basis and the entity's business and risk management activities have the characteristics specified in paragraph 7.1.4.

(c) an entity be required to document formally how it will apply risk mitigation accounting.

Paragraphs BC11–BC37 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of these proposals, please explain what you would suggest instead and why.

Response

We support an objective of enabling financial statements to represent the economic effect of an entity's risk management activities when repricing risk is managed on a net basis, to the extent that accounting volatility is materially mitigated. However, our support is conditional on this objective being interpreted as achieving a full (or equivalent) representation of risk management outcomes.

In the Basis for Conclusions, the objective is framed in terms of 'faithful representation'. In our view, this wording may reflect an intent rather than a consistently achieved outcome and is therefore insufficient. For preparers, the mitigation of accounting volatility is the primary objective of current hedge accounting practices and should therefore be the primary objective of RMA.

We support voluntary application and formal documentation. However, the attached interpretation papers show that the present scope does not yet fully capture several important dimensions of banking-book risk management in practice, including decentralised group structures, equity modelling and non-linear risk management.

In addition, the model introduces strict accounting constraints - including the over-hedging test, a single risk measure, the RMA excess test and the lower-of test - which are not aligned with how risk is managed in practice, including within IRRBB-type frameworks.

Without comprehensive amendments and clarifications including those in these areas, the model will not consistently achieve full representation, and consequently the objective of mitigating accounting volatility cannot be achieved.

Accordingly, the requested change here is that RMA should be clarified and broadened so that it can faithfully represent decentralised risk management structures, equity-model-related risk management and non-linear interest rate risk where these form part of the entity's actual risk management strategy.

The documentation requirement is supported, as it is principles-based and anchored in actual risk management governance, and should remain so without becoming overly granular or burdensome.

Any proposed solution should demonstrate that it provides an improvement over the existing EU-endorsed hedge accounting requirements to justify the incremental costs to be incurred.

Question 2 - Underlying portfolios (paragraphs 7.2.1-7.2.4)

IASB Question

The IASB proposes that risk mitigation accounting be applied based on underlying portfolios—that is, portfolios of financial instruments that expose an entity to repricing risk. The IASB proposes that financial instruments be eligible for inclusion in 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 of IFRS 9 Financial Instruments);**
- (b) financial liabilities classified as subsequently measured at amortised cost (in accordance with paragraph 4.2.1 of IFRS 9); or**
- (c) future transactions that could result in the recognition or derecognition of financial instruments specified in (a) or (b).**

The IASB is also proposing that an entity apply risk mitigation accounting only to its exposure to repricing risk that is not otherwise mitigated. However, if a financial instrument is designated as a hedged item for a risk other than repricing risk, the hedged exposure would be eligible for inclusion in underlying portfolios.

Paragraphs BC38–BC63 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of these proposals, please explain what you would suggest instead and why.

Response

We appreciate the overall concepts but however we identified items which are included in IRRBB on a net basis but are not eligible for RMA highlighting misalignment with risk management practices (e.g. leases that are treated separately under IFRS 16). The attached interpretation papers also raise broader interaction issues with existing IFRS classifications and risk management practice. In our accounting paper “WG6 - Interaction IFRS and RMA”, we discuss limitations arising from:

- the treatment of eligible instruments (which are currently restricted based on accounting classification rather than risk management);
- instruments measured at FVPL (which may be economically hedged but excluded from the managed net exposure);
- hedged exposures (including exposures not designated in IFRS 9 hedge accounting), and;
- multi-currency NRRE (which would reflect how risk is managed across currencies in some banks).

The paper concludes that the restrictions of the RMA model in the Exposure Draft may introduce structural misalignment between RMA and IRRBB-compliant risk management practices and lead to accounting outcomes that do not faithfully reflect how interest rate risk is managed in practice.

In addition, we do not agree with the proposals as drafted in respect of the exclusion of intra-group transactions and the narrow scope of eligible items. We conclude that the exclusion of intra-group transactions from the consolidated application of RMA (paragraph

7.2.3) creates a material disconnect between accounting and the way repricing risk is genuinely managed in decentralised groups. This can generate artificial over-hedging, distort risk limits and prevent faithful representation of local risk transfer mechanisms, resulting in a net repricing risk exposure that does not faithfully reflect the population of managed exposures. We identify this as a significant weakness and conclude that a solution allowing internal transactions used for repricing risk management to be reflected consistently at consolidated level is necessary.

We identified a solution for further investigation, in which RMA at consolidated level equals the aggregation of RMAs measured at local level, with the documentation at consolidated level reflecting the aggregation of local RMA documentations while leaving the normal consolidation elimination process otherwise unaffected. The requested change is therefore that the IASB should permit internal transactions used for repricing risk management to be reflected consistently at consolidated level through such an approach.

In addition, our work on equity modelling and AT1 shows that the wording around the equity proxy may be read too narrowly. The requested change is that the final standard should clarify that eligible asset-based proxy approaches consistent with risk management can be used, including approaches based on fixed-rate assets where appropriate, without treating equity itself as an eligible underlying item. Our reading of the ED is that AT1 might be ineligible for inclusion which would not be aligned with risk management practices. AT1 instruments should be included or at least a proxy solution should be enabled.

Regarding hedged exposures, the requirement that first-level relationships must qualify for hedge accounting before inclusion in the RMA model introduces operational complexity and may exclude economically relevant exposures. This condition is not aligned with how risk is managed in practice, where exposures are considered as part of a broader net risk position, nor the treatment of aggregated exposures under IFRS 9 general hedge accounting. The final standard should remove or clarify this requirement to ensure consistent and operational application aligned with risk management.

Finally, the inclusion of Future Transactions should be aligned with IRRBB practices and not based on an accounting-based probability approach.

Supporting references / source papers

- WG6 - Interaction IFRS and RMA.
- WG7 - Intra Group Application of RMA.
- WG5 - Equity Model Book.

Question 3 - Determining the net repricing risk exposure (paragraphs 7.2.5-7.2.10)

IASB Question

The IASB proposes that an entity determine the net repricing risk exposure by aggregating the repricing risk arising from underlying portfolios by repricing time bands based on expected repricing dates. The expected repricing date is the earlier of the dates on which financial instruments in the underlying portfolios are expected to be settled or to reprice.

The IASB also proposes that the entity 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 repricing risk exposure in each repricing time band.

Paragraphs BC64–BC69 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of these proposals, please explain what you would suggest instead and why.

Response

We do not fully agree with these proposals.

The concept of a Net Repricing Risk Exposure (NRRE) defined solely from underlying positions is not aligned with how interest rate risk is managed in practice. Risk management is typically performed on the combined position of assets, liabilities and hedging derivatives, within approved risk limits. The proposed separation between underlying positions and hedging derivatives therefore introduces an accounting construct that is not itself a managed risk metric and may result in different accounting outcomes for economically identical positions.

We are also concerned that the scope of the NRRE is driven by accounting classifications rather than risk management practices. In practice, entities manage risk on a holistic basis, including exposures that may be excluded from the NRRE because of their accounting treatment. As a result, the proposed NRRE may not faithfully represent the population of risks that is actually managed.

Credit risk should be reflected in the expected cash flows of (stage 3) non-performing exposures used to determine the NRRE. The resulting expected cash flows would therefore be reduced and adjusted for uncertainty before inclusion in the repricing profile.

The proposals do not adequately address multi-currency risk management. Many institutions manage economically linked exposures across currencies as part of a single risk management strategy. Requiring separate NRREs by currency may fragment the managed position and fail to represent the economic hedging strategy. The IASB should clarify whether multi-currency NRREs are permitted where they reflect actual risk management.

Further concerns arise from restrictions on eligible items, including the exclusion of intra-group transactions and certain proxy approaches. In decentralised groups, intra-group transactions are a core mechanism for transferring and managing repricing risk. Excluding those transactions may distort the NRRE, create artificial over-hedging and prevent faithful representation of the managed risk position.

Operational requirements may create further divergence from risk management practice. In particular, requiring first-level relationships to qualify for hedge accounting before inclusion in the NRRE may exclude economically relevant exposures. Accounting-based probability criteria for future transactions may also differ from the assumptions used within IRRBB. As discussed in Question 2, these requirements should be removed or clarified and aligned with actual risk management.

Finally, the proposals do not clearly accommodate non-linear risk dimensions and appear to assume a single risk measure within a repricing time band. In practice, institutions often use multiple complementary risk measures and manage non-linear risk exposures alongside linear repricing risk. The final standard should permit this where consistent with the documented risk management strategy.

Supporting references / source papers

- WG5 - Risk Measure per Time Bucket.
- WG6 - Interaction IFRS and RMA.
- WG7 - Intra Group Application of RMA.
- WG8 - Non-linear Risk RMA.

Question 4 - Designated derivatives (Section 7.3)

IASB Question

The IASB proposes that only interest rate derivatives with a party external to the reporting entity that are used to mitigate the entity's repricing risk in accordance with its risk management strategy be eligible to be included as designated derivatives.

Paragraphs BC70–BC77 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of these proposals, please explain what you would suggest instead and why.

Response

We do not fully agree with the proposed restriction that only interest-rate derivatives with a party external to the reporting entity may be designated.

Internal derivatives are an essential component of many banks' risk-management frameworks. They transfer repricing risk from originating entities or business units to a central treasury function. The resulting net risk position is then externalised through transactions with market counterparties.

Internal derivatives may therefore be external to the reporting entity at which RMA is applied. However, they may remain internal from the consolidated group's perspective. Excluding them may prevent RMA from representing how repricing risk is transferred, aggregated and mitigated.

We believe internal derivatives should be eligible where appropriate evidence demonstrates externalisation of the resulting net risk. The IASB should clarify how "external to the reporting entity" applies at different reporting levels.

Where risk is managed and externalised globally, allocating external derivatives between RMA-eligible and ineligible populations may be arbitrary. External trades frequently mitigate a single net position spanning portfolios, products, entities, currencies and risk objectives. They are not necessarily executed by reference to accounting-defined populations.

Banks already distinguish derivatives used for different purposes, including trading, micro hedging and macro hedging of exposures measured at amortised cost, FVPL or FVOCI. The principal new challenge is not identifying these broad use cases. It is allocating globally managed external derivatives to accounting-defined RMA populations where the trades were not executed on that basis.

Requiring such allocations could introduce assumptions unrelated to hedge execution. It could also reduce auditability and encourage entities to alter hedge execution to achieve accounting outcomes. Accounting should represent risk management rather than influence it.

Similar concerns arise when only a proportion of a derivative is designated. Entities would require processes to allocate, track and document portions of derivatives across portfolios and time periods. This would require additional systems, controls and audit evidence, particularly where derivatives contribute to several risk objectives.

Internal derivatives, supported by evidence of externalisation, could provide an auditable basis for these allocations. Their eligibility would also avoid creating separate external hedge books based solely on accounting classifications.

The proposals also require clarification for non-linear exposures. Options, swaptions and option-based strategies are widely used to manage interest-rate risk. The final requirements should permit derivatives used to manage non-linear risks where this reflects the documented strategy.

The treatment should be aligned with IFRS 9 where appropriate. This should include written options used to hedge purchased options and other eligible combinations representing genuine non-linear risk management.

Finally, entities may use cross-currency swaps as part of broader repricing-risk strategies. The IASB should clarify whether these instruments qualify and how currency basis risk should be treated. In particular, it should clarify whether single currency (tenor) and currency basis risks form part of the benchmark derivative, are treated separately or remain in profit or loss.

Supporting references / source papers

- WG7 - Intra Group Application of RMA.
- WG8 - Non-linear Risk RMA.

Question 5 - Risk mitigation objective and benchmark derivatives (paragraphs 7.4.1-7.4.7)

IASB Question

The IASB proposes that an entity:

- (a) specify a risk mitigation objective that is consistent with the amount of repricing risk the entity mitigates using designated derivatives, but does not exceed the amount of net repricing risk exposure in each repricing time band;**
- (b) construct benchmark derivatives to replicate the timing and amount of repricing risk as specified in the risk mitigation objective; and**
- (c) adjust the amount of repricing risk represented by the benchmark derivatives if unexpected changes in financial instruments included in underlying portfolios reduce the net repricing risk exposure to an amount below the risk mitigation objective specified at the beginning of the period.**

Paragraphs BC78–BC87 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of these proposals, please explain what you would suggest instead and why.

Response

We do not agree with the proposals as currently designed in the exposure draft.

A central concern is the requirement that the risk mitigation objective cannot exceed the NRRE in each repricing time band. This creates an accounting over-hedging restriction that does not reflect how interest-rate risk is managed.

Banks manage the combined position of assets, liabilities and derivatives within approved risk limits. They do not generally seek a perfectly neutral position in every time bucket. Both risk-increasing and risk-reducing actions may be appropriate within authorised limits.

An entity may be over-hedged in one bucket and under-hedged in another. Its combined position may nevertheless remain consistent with its risk-management strategy. A mechanical bucket-level restriction could prevent benchmark derivatives from representing that strategy.

The distinction between over-hedging and under-hedging is therefore principally an accounting construct. It should not be treated as equivalent to breaching an IRRBB risk limit.

The resulting mismatch may leave part of the designated derivatives’ fair-value movements unmatched in profit or loss. This would create artificial accounting volatility despite economically appropriate risk management.

We recommend removing or redesigning the artificial over-hedging restrictions. Alternatively, the model could use documented risk limits or an entity-defined eligibility threshold. Risk mitigation within that boundary would not be treated as an RMA over-hedge.

The treatment of unexpected changes also requires revision. Unexpected changes should be limited to material and exceptional differences between actual outcomes and the expectations used when the RMO was specified, such as unexpected portfolio disposals.

Changes in expectations, behavioural assumptions or modelling inputs should generally be reflected through normal updates to the NRRE and risk mitigation objective. They should not automatically require separate benchmark-derivative adjustments.

A broader approach would require entities to identify, track and attribute changes across large, dynamic portfolios. This would require substantial additional data, governance and controls. It would also be difficult to distinguish normal portfolio evolution from an unexpected event.

Examples of potential mismatches include NII management within approved limits where a bucket-level cap prevents representation of the actual strategy, changes in prepayment expectations being treated as unexpected changes despite forming part of normal risk management, and existing off-market hedges producing mismatches because benchmark derivatives must start at zero fair value.

We agree with the concept of the benchmark derivatives as a mechanism to measure the movement in the valuation of the hedged risk. Finally, the benchmark-derivative framework should accommodate non-linear risk. It should permit options and other non-linear instruments to represent actual risk-management strategies.

We also have significant concerns about requiring benchmark derivatives to begin at zero fair value. Designated derivatives frequently have non-zero fair values, including at transition, following acquisitions, portfolio transfers or an RMA restart. Requiring benchmark derivatives to begin at zero may create immediate mismatches and distort future results. Benchmark derivatives should be permitted to reflect the non-zero value of the existing managed position.

A pull-to-par (amortisation) mechanism should neutralise the inherited value's effect on future results. The initial amount should unwind systematically over the benchmark derivative's remaining life. This would preserve the existing position while preventing inherited value from distorting subsequent RMA outcomes.

From an operational perspective, the proposals would require the construction and continuous adjustment of benchmark derivatives across large, dynamic portfolios. Entities would also need to monitor several interacting constraints, separately identify unexpected changes and reconcile accounting constructs with risk measures that are not used independently in practice. This would require substantial changes to systems, models, processes, controls and governance.

Supporting references / source papers

- WG3 - Transition Benchmark Derivative Initial Fair Value of Zero.
- WG8 - Non-linear Risk RMA.
- WG9 - Over-hedge vs Under-hedge within Limits and Optimisation Strategy.
- WG10 - Unexpected Changes.

Question 6 - Recognising and measuring the risk mitigation adjustment (paragraphs 7.4.8-7.4.14)

IASB Question

The IASB proposes that an entity:

(a) recognise the risk mitigation adjustment in the statement of financial position based on the lower of:

(i) the cumulative gains or losses on the designated derivatives; and

(ii) the cumulative change in the fair value (present value) of the benchmark derivatives;

(b) recognise in profit or loss the amount accumulated as the risk mitigation adjustment in the same periods during which the repricing differences arising from the financial instruments in the underlying portfolios affect profit or loss;

(c) assess, at each reporting date, whether there is an indication that the risk mitigation adjustment might not be realised in full over the mitigated time horizon; and

(d) recognise immediately in profit or loss a reduction in the amount accumulated as the risk mitigation adjustment if it exceeds the present value of the net repricing risk exposure as at the reporting date.

Paragraphs BC88–BC116 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of these proposals, please explain what you would suggest instead and why.

Response

We support the objective of aligning accounting outcomes with the repricing profile of underlying portfolios.

However, the proposed mechanics combine bucket-level restrictions, a cumulative lower-of mechanism and an excess test. The IASB has not established a sufficiently clear basis for applying all these mechanisms simultaneously.

Their cumulative operation may produce artificial volatility, significant operational complexity and outcomes disconnected from the risk mitigation objective.

Recognition and measurement should instead be anchored primarily in the documented risk mitigation objective, benchmark derivatives representing the managed risk position, and documented risk limits and governance. Any additional safeguard should address a clearly identified economic risk. It should not generate recurring accounting consequences.

Cumulative lower-of mechanism

We recommend removing the cumulative lower-of requirement. The mechanism may create profit-or-loss volatility through switching effects or changes in the direction of cumulative gains and losses. Such volatility may not correspond to changes in economic risk.

The mechanism may also delay or restrict justified RMA recognition following derecognition or changes in underlying exposures. Measurement should align more directly with benchmark derivatives and the risk mitigation objective.

Recognition in profit or loss

We support recognising accumulated RMA amounts when the underlying repricing effects affect profit or loss. However, this principle may be undermined by bucket-level constraints and benchmark-derivative adjustments. The lower-of mechanism and excess test may introduce further effects unrelated to the underlying repricing profile.

The accounting model should not incentivise entities to change economically appropriate positions to avoid accounting volatility.

RMA excess test

We support assessing whether the RMA may no longer be realised in full. However, we do not support the proposed excess test.

The test is structurally flawed and may generate outcomes that cannot be independently validated or benchmarked. It may also produce accounting effects where the strategy remains effective.

The IASB should remove the proposed test. Any replacement should be principles-based and supported by comprehensive field testing.

If a backstop is retained, it should respond to clearly identifiable economic indicators. These might include termination of the risk-management strategy, a fundamental change in the risk-management objective, a substantial reduction in managed exposures, persistent inability of the portfolio to support recovery, or fundamental regulatory, contractual or economic changes.

Normal portfolio turnover, hedge rebalancing and temporary benchmark adjustments should not trigger an excess.

Certain derecognition events may crystallise interest-rate exposures. However, those events require targeted alignment between realised outcomes and benchmark-derivative adjustments. They do not justify a recurring mechanical test.

From an operational perspective, entities would need to identify, calculate, document, validate and explain benchmark-derivative adjustments across multiple time buckets and reporting periods. This would require significant systems development, controls and audit evidence.

Benchmark derivatives should remain a representation of the documented risk mitigation strategy. They should not become residual balancing items that are adjusted primarily to make the accounting mechanics operate. Such adjustments could weaken the link between the accounting outcome and actual risk management and could produce profit-or-loss effects that are difficult to explain to users.

Present value of the NRRE

We also question the requirement to calculate the present value of the NRRE. The NRRE is not generally a traded instrument with an observable market value. Its present value depends on behavioural assumptions, entity-specific expectations and valuation methodologies and would be entity specific as a result.

The calculation may be path-dependent. Economically similar portfolios could produce different outcomes because they developed differently over time. Changes in hedge maturities, portfolio growth, runoff or rebalancing may also affect the result without changing risk appetite.

For modelled exposures, determining the NRRE's present value would require significant judgement, governance and controls.

FVOCI mismatch

We support presenting the RMA as a separate balance-sheet line item rather than in equity or OCI. However, the model leaves a residual OCI mismatch for FVOCI financial assets. The IASB should eliminate this mismatch.

One approach would transfer the relevant RMA fair-value changes relating to FVOCI assets from the separate RMA balance to OCI. This would preserve separate RMA presentation while addressing volatility arising solely from accounting mechanics.

Supporting references / source papers

- WG2 - RMA Excess.
- WG3 - Cumulative Lower Of.
- WG9 - Over-hedge vs Under-hedge within Limits and Optimisation Strategy.

Question 7 - Discontinuation of risk mitigation accounting (Section 7.5)

IASB Question

The IASB proposes that an entity discontinue risk mitigation accounting prospectively from the date on which the entity's risk management strategy changes—that is, when the entity changes how it manages repricing risk, including a change to the mitigated rate. The IASB also proposes that an entity that discontinues risk mitigation accounting recognise the amount accumulated as the risk mitigation adjustment in profit or loss:

(a) on a systematic and rational basis over the mitigated time horizon, if the repricing differences arising from the financial instruments in underlying portfolios are still expected to affect profit or loss; or

(b) immediately, if the repricing differences arising from the financial instruments in underlying portfolios are no longer expected to affect profit or loss.

Paragraphs BC117–BC126 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of these proposals, please explain what you would suggest instead and why.

Response

We consider the overall discontinuation framework directionally appropriate.

RMA should be discontinued following a genuine change in risk-management strategy. Accumulated balances should then be recognised according to the remaining repricing profile.

However, discontinuation should depend on whether RMA continues to represent risk management in substance. It should not be triggered mechanically by operational events or model changes.

Risk management is dynamic. Normal changes in portfolios, volumes, behavioural assumptions, modelling inputs, risk limits and market conditions may occur within an unchanged strategy.

Normal movements between over-hedged and under-hedged bucket positions should also not cause discontinuation. Such movements may result from portfolio evolution or routine hedge rebalancing.

If the final model permits an entity-defined RMA eligibility threshold (see proposal for over-hedging) , a properly documented prospective change to that threshold should not automatically trigger discontinuation when it represents an update within the existing risk management framework. However, the threshold should not be changed retrospectively to avoid an accounting consequence.

We are not in favour of mechanical discontinuation rules. As a matter of principle, discontinuation should be rare and should only arise where RMA can no longer adequately represent an entity's risk management despite reasonable adaptations. As this assessment inherently requires management judgement, preparers should retain the ability to discontinue RMA where the relevant facts and circumstances justify doing so and disclosing this accordingly. The IASB should remove the examples in the Exposure Draft, including

paragraph B7.5.3. and should clearly distinguish fundamental strategy changes from normal updates within an existing framework. Otherwise, repeated discontinuation and restart could create operational burden and artificial volatility.

We support recognising accumulated RMA balances systematically and rationally where the related repricing effects remain expected, and immediately where those effects are no longer expected, including following derecognition.

An RMA restart should constitute a new designation. Previous balances should remain separately tracked from the new RMA cycle. The IASB should also clarify whether discontinued balances are included in the excess assessment for the new designation.

Supporting references / source papers

- WG1 - Changes in Risk Management Strategy, Discontinuance and Restart of RMA and RMA Cycle Accounting Entries.

Question 8 - Effective date and withdrawal of IAS 39 (Section C1 of Appendix C to IFRS 9)

IASB Question

The IASB proposes that an entity be permitted to apply the requirements for risk mitigation accounting from the beginning of the annual reporting period starting on or after [the date the requirements are issued]. The IASB also proposes that an entity discontinue applying the hedge accounting requirements in IAS 39 Financial Instruments: Recognition and Measurement at the earlier of:

(a) the date on which the entity first applies the requirements for risk mitigation accounting; and

(b) annual reporting periods beginning on or after [the date on which IAS 39 is withdrawn].

Paragraphs BC127–BC128 of the Basis for Conclusions explains the IASB’s rationale for these proposals.

Do you agree with the proposal to withdraw IAS 39? Why or why not? If you disagree, please explain what you would suggest instead and why. If the IASB decides to withdraw IAS 39, do you have any information for the IASB to consider in determining the withdrawal date, for example the time that is likely to be needed to transition from IAS 39?

Response

Discussion of withdrawing IAS 39 is premature while RMA’s core mechanics remain unresolved.

IAS 39 should be withdrawn only when the replacement has demonstrated that it materially mitigates artificial accounting volatility, operates reliably, provides a meaningful improvement over existing requirements, has proportionate systems and control requirements, and provides useful and proportionate disclosures.

The Exposure Draft has not yet met that threshold. Substantial revisions are required. The revised model should be re-exposed and supported by sufficient practical assessment before finalisation.

Following re-exposure, practical assessment and completion of the applicable endorsement process, preparers should be provided with an implementation and early application period of at least five years from publication of the final requirements. This period is necessary to support robust interpretation, systems development, testing, governance and controls, comparative information and parallel runs. The effective date of RMA should coincide with the withdrawal of IAS 39. This avoids withdrawing existing portfolio hedge accounting before an operational replacement is available.

Question 9 - Transition (Section C2 of Appendix C to IFRS 9)

IASB Question

The IASB proposes that:

- (a) an entity apply the proposed requirements for risk mitigation accounting prospectively;
- (b) an entity be permitted to revoke its previous designation of financial assets or financial liabilities as measured at fair value through profit or loss, if those financial instruments will be included in underlying portfolios that the entity uses to determine the net repricing risk exposure;
- (c) an entity making the transition from IAS 39 discontinue hedge accounting for all hedging relationships and apply paragraphs 6.5.10 and 6.5.12 of IFRS 9 to the related hedge adjustments;
- (d) an entity making the transition from the hedge accounting requirements in Chapter 6 of IFRS 9 be permitted to discontinue hedge accounting for hedging relationships in which the hedged items are financial instruments that will be included in the underlying portfolios in accordance with paragraph 7.2.1; and
- (e) an entity be exempt from disclosing the quantitative information required by paragraph 28(f) of IAS 8 Basis of Preparation of Financial Statements in the reporting period in which the entity first applies the amendments.

Paragraphs BC129–BC147 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of these proposals, please explain what you would suggest instead and why.

Response

We broadly support prospective application and the proposed transition reliefs.

Benchmark derivatives entering RMA should be aligned with the designated derivatives from a risk perspective and therefore be permitted to reflect an existing fair value, which may be non-zero. A pull-to-par mechanism should neutralise the effect of the inherited value on future results, thereby producing a substantially equivalent subsequent accounting outcome to that achieved if the benchmark derivative had entered RMA at zero fair value. Requiring benchmark derivatives to start at zero fair value would create an artificial mismatch with the derivatives actually used for risk management, potentially distort the operation of the lower-of mechanism and introduce accounting volatility unrelated to the underlying economics. Accordingly, benchmark derivatives should be permitted to reflect a non-zero fair value on entry into RMA, with that initial value systematically unwinding over the remaining life of the derivative. The same principle should also apply in other circumstances in which derivatives enter or re-enter RMA with an existing fair value, including acquisitions, compulsory discontinuation and restart, and newly traded off-market designated derivatives.

The IASB should clarify the treatment and release of fair-value hedge adjustments, cash-flow hedge reserves, separate line-item balances and other legacy hedge-accounting balances. Recognition should remain aligned, as far as practicable, with the underlying repricing effects and derivative runoff.

Mandatory discontinuation of IAS 39 may also affect economically valid relationships that cannot enter RMA or be replicated under IFRS 9. The IASB should provide appropriate relief when no suitable replacement exists.

The transition relief for voluntary FVPL designations does not address mandatory FVPL instruments. Their exclusion may preserve the structural difference between RMA eligibility and the position actually managed.

Finally, transition will require significant changes to systems, data, models, governance and controls. Entities will require an adequate implementation period and structured implementation support.

Supporting references / source papers

- WG3 - Transition Benchmark Derivative Initial Fair Value of Zero.
- WG6 - Interaction IFRS and RMA.

Question 10 - Disclosure requirements (proposed amendments to IFRS 7)

IASB Question

The IASB is proposing new presentation and disclosure requirements to be included in IFRS 7 Financial Instruments: Disclosures.

Paragraph 30E would require an entity to present separately from other line items:

(a) the risk mitigation adjustment, 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 period in the statement of comprehensive income.

Paragraphs 30F–30P would require an entity that applies risk mitigation accounting to disclose information that enables users of 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 risk mitigation accounting has affected the entity's statement of financial position and its statement of comprehensive income.

Paragraph 33A would apply to entities whose business and risk management activities have the characteristics specified in the proposed paragraph 7.1.4 of IFRS 9 but that choose not to apply risk mitigation accounting. Such entities would be required to provide a qualitative explanation of how they manage repricing risk.

Paragraphs BC148–BC171 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of these proposals, please explain what you would suggest instead and why.

Response

Proportionate and decision-useful disclosures

We support improving transparency about repricing-risk management and RMA's financial-statement effects. We also support separate presentation of the RMA and the corresponding profit-or-loss effects. However, the proposed package must remain proportionate, operationally feasible and aligned with actual risk management.

Alignment with risk management and removal of IFRS 7.30K

RMA may apply to only a subset of exposures managed under the wider IRRBB framework. RMA disclosures may therefore present an incomplete picture and could be misunderstood.

We support removing the IFRS 7.30K sensitivity analysis. It is not aligned with internal risk metrics, prudential measures or Pillar III reporting. It covers only RMA-scope portfolios and could be mistaken for a headline measure of overall interest-rate risk.

Operational burden and commercial sensitivity

The disclosure package would also require substantial new data, aggregation, modelling, systems, governance and controls. Several requirements use RMA-specific constructs that do not currently form part of risk management or reporting.

Furthermore, granular disclosures could reveal commercially sensitive information. This includes portfolio composition, behavioural assumptions, modelling approaches, pricing information and hedging strategies.

Aggregation and areas requiring clarification

The requirements should permit appropriate aggregation and focus on information needed to understand the risk-management strategy, the key drivers of the RMA and the financial-statement effects.

The IASB should clarify the expected recognition profile, disclosures concerning modelled equity, aggregation and consolidation for decentralised groups, and the relevance of average fixed-rate information for portfolio-based strategies.

Proportionate disclosures for non-adopters

We do not support requiring the full RMA disclosure package from eligible non-adopters. Those entities may not produce the NRRE, risk mitigation objective or benchmark-derivative information. A proportionate qualitative disclosure could explain how repricing risk is managed, why RMA is not applied and which alternative accounting approach is used. Non-adopters should not be required to implement RMA concepts solely to produce disclosures. Any requirement should apply only where the entity dynamically manages repricing risk.

RMA eligibility threshold disclosures

Where an entity applies the “RMA eligibility threshold” we proposed to address the over-hedging constraint, appropriate disclosure should be provided to ensure transparency over its application and effect.

Supporting references / source papers

- WG11 - Disclosure Requirements Impact Assessment.
- WG9 - Overhedge Underhedge