Final Comment Letter

International Accounting Standards Board

7 Westferry Circus, Canary Wharf

London E14 4HD

United Kingdom

27 November 2026

Dear Mr Woods,

Re: Exposure Draft *Risk Mitigation Accounting—Proposed amendments to IFRS 9 and IFRS 7*

On behalf of EFRAG, I am writing to comment on the Exposure Draft *Risk Mitigation Accounting—Proposed amendments to IFRS 9 and IFRS 7* (the ED), issued by the IASB on 3 December 2025.

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Accounting Standards in the European Union and European Economic Area.

EFRAG supports the IASB's work to develop a risk mitigation accounting (RMA) model that, once fit for purpose, could replace the remaining requirements in IAS 39. EFRAG emphasises the importance of continuing the work of developing a viable RMA model. The momentum of significant constituents' engagement should be continued to be utilised to bring this work to a conclusion.

EFRAG concurs with the objective of developing an accounting model that better reflects entities' risk management activities conducted on a dynamic basis, including eliminating accounting mismatches between risk-managed exposures and the derivatives used to manage those risks.

Furthermore, EFRAG is supportive of the IASB's initiative to introduce new tools currently not utilised in IFRS 9 *Financial Instruments* to better reflect an entity's risk management. These include modelling the risk exposures of on demand deposits, using the measures the entity uses to quantify the net repricing risk exposure, and recognition of measurement changes like the risk mitigation adjustment.

Nevertheless, the following are key messages relating to the ED.

1 An RMA model should be a principle-based accounting model rather than one primarily designed to address banks' interest rate risk management. The model and the terminology used should be applicable to the banking and insurance sectors. For now, the RMA model should first work for interest rate risk when issued. As a longer-term objective, the model should then be further developed to accommodate other types of risks and be extended to other sectors.

2 Any forced deviation of an RMA model from actual risk management practices increases the cost of implementing and applying the model, reduces the relevance of the resulting information, including disclosures, and risks influencing risk management decisions rather than faithfully reflecting them.

3 The current scope for underlying portfolios in the proposed RMA model is too narrow. The scope should be expanded to include all non-derivative exposures, including hedged exposures, that form part of an entity's risk management of the relevant mitigated risk.

4 Net repricing risk exposure is a model construct, and to connect it to risk management, it should be interpreted broadly to include aggregated non-offsetting positions that are managed on a dynamic basis.

5 Requirements related to repricing time bands, the risk mitigation objective, the concept of unexpected changes and the cumulative lower-of test do not reflect fundamental risk management principles and should therefore be fundamentally redesigned or removed from the RMA model.

6 EFRAG supports the use of safeguards to ensure that the amount accumulated in the risk mitigation adjustment is fully offset by unrealised changes caused by the mitigated risk in the underlying portfolios. However, the current risk mitigation adjustment excess test requires fundamental redesign.

7 A redesigned RMA model should also:

(a) solve the issue of inflated accounting effects for exposures whose mitigated risk is (re)measured at fair value, including exposures measured at fair value through profit or loss, fair value through other comprehensive income and insurance contracts;

(b) clarify the model requirements and consolidation procedures when the same mitigated risks are managed at multiple levels within a group (please see paragraphs 35 to 37 below);

(c) clarify the requirements when underlying exposures are included in multiple RMA models addressing different mitigated risks as well as the interactions between the RMA model and other requirements of IFRS 9;

(d) reassess the disclosure requirements, taking into account cost-benefit considerations; and

(e) consider and enhance the transition provisions for entities applying IFRS 17 *Insurance Contracts*.

8 A redesigned RMA model must include fundamental changes to the RMA model of the ED. Risk mitigation accounting is a set of highly integrated requirements that must be judged and assessed in their totality. Intended and unintended consequences can only be assessed when all the requirements are considered holistically. EFRAG therefore recommends that IASB plan for a re-exposure of an RMA model.

9 The RMA model, as currently proposed, does not yet provide a sufficiently robust and operationally viable alternative to IAS 39 *Financial Instruments: Recognition and Measurement*, including the IAS 39 carve-out widely applied in Europe. IAS 39 should therefore not be withdrawn until the RMA model has been redesigned, re-exposed and demonstrated to be operationally viable and capable of achieving its objectives.

EFRAG's detailed comments and responses to the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Didrik Thrane-Nielsen or Serge Vinogradov.

Yours sincerely,



Wolf Klinz

Chair of EFRAG FRB

Appendix – EFRAG's responses to the questions raised in the ED

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

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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.

EFRAG's response

1 EFRAG recommends that an RMA model be developed as a principle-based accounting model rather than one primarily designed to address banks' interest rate risk management. For now, the RMA model should first work for interest rate risk when issued and be applicable to both banking and insurance sectors. As a long-term objective in the subsequent step, the model should then be further developed to be applicable to risks beyond interest rate risk and to other sectors.

2 EFRAG observes that, in general, the principles and the terminology of the ED are sufficiently clear for constituents representing the banking industry. However, multiple requests for clarification were received from the insurance industry. Most importantly, constituents from the insurance industry noted that the term 'repricing risk' requires more guidance and adaptation to their risk management practices, which may include a clearer explanation of its intended meaning to reduce the risk of misinterpretation (please refer to

paragraph 113). Although EFRAG recommends the use of a terminology applicable across various industries, in its reply to the ED, EFRAG will apply the terminology of the ED.

Question (a)

3 EFRAG agrees with the statement in paragraph IN3 of the ED that entities have long faced challenges in faithfully representing the economic effect of dynamic and complex risk management activities in financial statements in a way that provides useful information to users. This was confirmed by the participants in our survey, *Current practices in dynamic interest rate risk management* (Current practice survey).

4 Therefore, EFRAG agrees that representing the economic effect of an entity's interest rate risk management activities in the financial statements and ensuring a close alignment between the actual interest rate risk management practices and their reflection in the financial statements is a key objective of a viable RMA model. We note that, if this objective is achieved, this may improve the situation under the current accounting requirements, for instance by reducing the magnitude of proxy hedging.

5 However, a significant difference in opinion among stakeholders exists as to whether this objective should clearly prevail over eliminating accounting mismatches, notably those that arise in profit or loss when financial assets and financial liabilities are measured at amortised cost or fair value through other comprehensive income (FVOCI) and the derivatives used to manage the repricing risk are measured at fair value through profit or loss. Two views were observed:

(a) View 1. Many constituents agreed that the faithful representation of the entity's risk management activities should be the primary objective of the RMA, while eliminating accounting mismatches is rather viewed as a consequence than a stand-alone objective. This view was expressed mostly by the insurance sector, a national standard setter and auditors.

(b) View 2. On the contrary, many other constituents, without denying the importance of the faithful representation of the entity's risk management activities as the RMA objective, argued that eliminating accounting mismatches should be (at least) an equally important objective. This view was expressed mostly by the banking sector.

6 EFRAG considers that both of these views should be taken into account.

7 EFRAG notes that having a clear primary objective or a hierarchy of objectives is important for the selection of consistent requirements for an RMA model and for the subsequent consistent application of those requirements. At the same time, none of the possible

objectives may be achievable in full[1], i.e. without a departure from the stated objective or some degree of compromise. In this case, the extent of this departure becomes an important factor to judge whether the objective has been achieved. Also, the objectives may be complementary rather than conflicting.

8 Most importantly, EFRAG observes that regardless of the view on which objective(s) should be primary, the proposed RMA model does not achieve its stated objective of faithful representation of the entity's risk management activities as it may not represent, due to its described scope and regulations, the way in which entities perform their interest rate risk management activities. For instance, for many constituents, interest-bearing financial instruments measured at fair value through profit or loss (FVTPL), lease obligations and lease receivables are an integral part of their actual interest rate risk management activities whilst these financial instruments are not eligible to be included in the underlying portfolios in accordance with paragraph 7.2.1 of the ED (please refer to Question 2 for more details). The accounting mechanics of the RMA model also contain multiple elements which are not part of the actual risk management practices but that may lead to non-economic outcomes (e.g., as a result of applying the excess test) or may represent a significant operational burden (notably, backward tracking of unexpected changes). This observation is a general overarching issue of the RMA model, with further examples of such misalignment being detailed in the relevant sections of this comment letter.

9 In addition, EFRAG considers that, due to misalignments with the actual risk management practices, the RMA model may influence the way entities perform their actual risk management activities. This may contradict the stated primary objective of reflecting the

[1] E.g. risk management is forward-looking only and considers possible and expected exposures regardless of how these are recognised or measured in the financial statements. Accounting is more backward-looking; it relates to existing recognised values in addition to value changes and must relate to recognition criteria and different measurement criteria. Risk management is often agnostic to the direction of exposures while RMA only intends to account for reductions in exposures. With these differences, it is not possible for financial statements to (fully or without any adjustments) represent the economic effect of an entity's risk management activities, e.g. some banks take action to both stabilise and optimise their net interest income as indicated in EFRAG's 2016 outreach report on how do banks manage interest rate risk. Full elimination of accounting mismatches might not be possible in a mixed measurement accounting model.

economic effect of an entity's risk management activities in the financial statements and represent a significant unintended consequence of the RMA model.

Question (b)

10 EFRAG agrees that the application of the RMA model should be voluntary.

Question (c)

11 EFRAG agrees, in principle, that an entity be required to document formally how it will apply risk mitigation accounting. This documentation is for internal control and external audit purposes.

12 However, given the dynamic nature of RMA, EFRAG sees the significant risk that the documentation of some of the elements in paragraph 7.1.7 of the ED may become boilerplate repetition of the ED requirements. An example of this may be the requirement (in paragraph 7.1.7(c) of the ED) to explain how the entity specifies the risk mitigation objective (RMO) for which there seems to be little expected variation in practice when the entity has already explained (as per paragraph 7.1.7(b) of the ED) how it determines the net repricing risk exposure (NRRE) and (as per paragraph 7.1.7(d) of the ED) how it identifies the designated derivatives.

13 In EFRAG's view, the RMA documentation should be allowed to reference the entity's existing asset and liability management and risk governance framework, including where that framework has references to regulatory metrics, as well as to the documentation already existing for the IFRS 17 risk mitigation option.

14 In addition, some constituents expressed concerns related to the feasibility of such documentation. Given the highly dynamic nature of interest rate risk management activities, formal documentation may become challenging. In this respect, a clarification that upfront documentation is sufficient without constantly updating it as risk mitigation objectives change would be useful, as well as a clarification of the required level of granularity.

Other issues

The requirement of an interest rate risk management on a net basis (paragraph 7.1.4(c) of the ED)

15 Some constituents are concerned that a strict requirement to manage net risk positions may prevent certain institutions from applying the RMA model.

16 Assuming that 'net basis' in the third criterion (paragraph 7.1.4(c) of the ED) means the net of financial assets and liabilities (or long or short positions), the RMA model could become inapplicable to entities which apply dynamic risk management on a dynamic gross basis, e.g. by calculating the effect arising from portfolios of financial assets only without the netting effect of portfolios of financial liabilities. At least some banks calculate and aggregate their exposures gross-based on the cash flows of the individual underlying instruments and then work with interest rate risk limits for different kinds of stresses of those aggregated cash flows. The ultimate result is equivalent to risk management on a net basis.

17 EFRAG recommends that the IASB clarify that risk management on a net basis should be understood broadly and that risk management practices similar to those mentioned above would be eligible for an RMA model. In addition, it should be clarified that managing only one type of interest rate risk, i.e. variable or fixed rate, is eligible under the model.

Question 2 – Underlying portfolios (paragraphs 7.2.1–7.2.4)

Question 2—Underlying portfolios (paragraphs 7.2.1–7.2.4)

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.

EFRAG's response

Agreement with the proposed eligible underlying portfolios

18 In the Current practice survey, bank respondents stated, either explicitly or implicitly, that they currently include all items sensitive to interest rate risk / all interest-bearing items in their interest rate risk managed position, be it at a fixed or floating rate. These items include derivative and non-derivative financial instruments such as demand deposits, some off-balance sheet items (e.g. guarantees and undrawn credit commitments) and lease receivables or lease liabilities.

19 In light of the findings from the Current practice survey, EFRAG's Preparer survey (Preparer survey) and constituents' comment letters, and consistent with the primary objective of RMA as stated in paragraph BC13 of the ED - i.e. to faithfully reflect an entity's (repricing) risk management activities in the financial statements to the extent possible - EFRAG asks the IASB to state the principle that entities shall include in the underlying portfolios those exposures that the entity manages on a net basis and that entities should not include in the underlying portfolios exposures that the entity does not manage on a net basis. Considering this principle, EFRAG agrees with the eligibility of the items proposed in the ED but recommends an extended scope for an RMA model.

Eligibility criteria need to be extended (in addition to ED proposals)

20 A non-exhaustive list of exposures that entities may include in their risk management include:

(a) insurance contracts issued, including fulfilment cash flows (present value of future cash flows, risk adjustment for non-financial risk) and the contractual service margin[2] (CSM), and reinsurance contracts issued and held under IFRS 17;

(b) *financial assets measured at fair value through profit or loss (FVPL)* - exposure to repricing risk and the way entities manage this repricing risk are not dependent on

[2] For more details, refer to paragraph 116.

the measurement attribute of the item. Banks and insurers both hold financial assets whose contractual terms give rise to cash flows that are not solely payments of principal and interest payments. These assets expose the entity to repricing risk, which is managed through its risk management activities. Insurers have also indicated that they include investment contract liabilities measured under IFRS 9, such as unit-linked liabilities, whose measurement is constrained by the demand deposit floor in IFRS 13.47;

(c) *finance and/or operating leases* - these positions are exposed to interest rate risk and, based on the Current practice survey and the Preparer survey, are included in the interest rate risk managed positions of a number of banks;

(d) *Additional Tier 1 (AT1) instruments* - these are treated akin to interest-bearing debt issuances despite IAS 32 requiring them to be classified as equity or as a compound instrument, and some constituents have asked for these instruments to be directly eligible rather than using the proxy solution proposed;

(e) *derivative assets and liabilities forming part of aggregated exposures*, for example a cross-currency swap combined with a foreign-currency fixed-rate bond. The ED allows hedged exposures to be eligible items as there is formal documentation in Chapter 6 of IFRS 9. However, there can be hedging instruments that are not formally designated in hedge accounting relationships. Formal hedge accounting documentation should not be a prerequisite for recognising an economically hedged position within RMA;

(f) *management of certain cash flows* - a few constituents indicated that they manage interest risk in cash flows, e.g. relating to deferred taxes / untaxed reserves, which are used to finance lease activities that are part of lending activities.

21 The scope of items included to calculate the net position in an entity's interest risk management is very important as this has consequences on the RMA model as follows:

(a) The risk limits specified or derived from an entity's risk management strategy may not be equal to the limits that the entity would have used if the entity were to conduct interest rate risk management on a net basis for the items in the scope of the RMA model. The relevance of using these risk limits in the RMA model may be questioned.

(b) The net position(s) actually managed may not be equal to the NRRE applied in the RMA model (see Question 3).

(c) The derivatives used in an entity's actual interest risk management of net position(s) may not be equal to those derivatives the entity would have used if it were to interest-risk manage the NRRE caused by items in the scope of the RMA model. The relevance of designating derivatives in the RMA model based on the derivatives used in an entity's actual interest risk management may be questioned.

(d) The relevance of the risk mitigation objective/NRRE test in paragraph 7.4.1 of the ED and the lower of test to determine the risk mitigation adjustment ('RMA adjustment'; see paragraph 7.4.8 of the ED) may be questioned because not all exposures that are managed are included in the RMA model.

(e) The operational burden of operating the model will increase as current systems cannot be reused.

(f) The relevance of the model output may be diminished as it will deviate from internal reporting.

(g) The RMA model may influence the way entities perform their actual risk management activities as indicated in paragraph 9 above.

22 EFRAG agrees that an entity shall apply RMA only to its exposure to repricing risk that is not otherwise mitigated.

Use of equity as a proxy

23 EFRAG acknowledges the accounting conceptual underpinnings of not being able to include equity in underlying portfolios used in the RMA model, as equity representing residual claims on the net assets of the entity per se cannot be included in the underlying portfolios. In a large number of instances this represents a deviation from actual risk management. EFRAG stresses the importance of having a proxy solution in the RMA model. To reflect risk management an RMA model must handle the issues of equity positions in risk management.

24 72% of respondents to the Current practice survey indicated that they do include equity instruments in their interest rate risk management practices. Therefore, some stakeholders are of the view that equity as a whole should be eligible to be included in the underlying portfolios.

25 *Focus on variable rates*. The ED proposes that equity can be used as a proxy to determine which variable rate financial assets to include in the underlying portfolios.

26 In practice, entities also use equity to fund finance, for example long-term fixed-rate assets. Therefore, EFRAG is of the view that the proxy in the RMA model is too narrowly focused on floating-rate assets. It should be more generic so that it can also work for fixed-rate financial instruments or a combination of fixed and floating items depending on the documented risk management. EFRAG acknowledges that the IASB's webcast video 3 recognises that the modelled equity balance is used to provide funding for fixed rate financial instruments. Therefore, EFRAG asks for this to be explicitly indicated in the RMA model.

27 *AT1 instruments*. AT1 instruments that have both liability and equity components typically have a contractually expected cash flow that is being managed as a financial liability for interest rate risk management purposes.

(a) Currently some entities recognise these AT1 instruments as financial liabilities but, depending on the IASB's Financial Instruments with Characteristics of Equity (FICE) project, they may have to recognise them as equity instruments, or at least, the coupons would be recognised as equity instruments. These entities consider it important to include AT1 instruments in the underlying portfolio to align with their risk management practices. This is because for risk management purposes, entities include them as these instruments are sensitive to interest rate risk (for example, if an entity does not pay a coupon on an AT1 instrument, this has an impact on its refinancing cost, among other effects). Many of these instruments behave like fixed interest rate cash flow liabilities. In addition, it is noted that these instruments are considered as interest-rate-sensitive in regulatory reporting. Some entities also manage foreign exchange risk for these AT1 instruments.

(b) EFRAG notes that entities may apply the proxy solution and that AT1 instruments can be reflected in the underlying portfolios by identifying the financial assets that back these equity instruments. Having said this, entities may not have sufficient relevant exposure in financial assets to create a solution by including financial assets from the underlying portfolios for AT1 instruments. Therefore, as indicated in paragraph 20(d), EFRAG considers that AT1 instruments should be directly eligible (i.e. should not be excluded from the principle stated above) rather than using the proxy solution.

28 Similar to banks with AT1 instruments, entities that issue insurance contracts as per IFRS 17 may also have Tier 1 instruments that may be subordinated notes and are recognised as equity.

29 There are also AT1 instruments that are classified as fully equity, but are managed as fixed rate liabilities. Therefore, EFRAG considers that based on an entity's risk management, the AT1 exposures in an RMA model may either be included through a proxy or be allowed as part of the underlying portfolios.

Financial assets measured at fair value through other comprehensive income

30 Conceptually, including financial assets or financial liabilities that are remeasured for changes in (fair) values caused by changes in the mitigated rate in the underlying portfolios, through the proposed RMA adjustment in the RMA model will cause inflated recognitions of the interest rate component of the fair value gains or losses, which may not be a faithful representation of the economics. In other words, the financial assets measured at FVOCI and recognised on the balance sheet contain an interest rate component of fair value gain or losses. To the extent an FVOCI exposure is in the same direction as the NRRE, this interest rate component is also (partly) present in the RMA adjustment, which is also recognised on the balance sheet, thereby inflating the balance sheet. This would also be relevant for financial instruments measured at fair value through profit or loss[3]. Furthermore, there may be an impact on the capital/solvency requirements.

31 This inflated accounting may be seen as a conceptual concern for banks and insurers. However, along with these banks and insurers, EFRAG considers that these financial assets should remain eligible as underlying portfolios and a solution should be sought in an RMA model for the presentation of the RMA adjustment. Refer to the response in ED Q6 for further details.

Future transactions

32 EFRAG agrees with the future transactions proposed in paragraph 7.2.4 of the ED except for forecast transactions, as explained below.

33 As per paragraph 7.2.4 of the ED, future transactions include forecast transactions that are highly probable. The highly probable requirement for future transactions restricts the RMA model's ability to faithfully reflect certain interest rate risk management practices and is not meaningful for the hedge of a net repricing risk exposure. That is, requiring a high probability threshold does not align with modelling practices, which do not assign probabilities to the net repricing risk exposure.

[3] Assuming these are allowed to be eligible as underlying portfolios.

34 Therefore, EFRAG suggests that this highly probable requirement should be removed or made less stringent. The IASB may consider both the RMA project and the *Post-implementation Review of IFRS 9 - Hedge Accounting* project together and align this requirement between Chapter 6 and the intended Chapter 7 of IFRS 9.

Intragroup application of RMA upon consolidation

35 Paragraph 7.1.6 of the ED requires an entity to apply RMA at the level at which it manages repricing risk, in accordance with its risk management strategy. Where risk management is decentralised, clarification is needed on how individual RMA models—incorporating intragroup derivative and non-derivative transactions fully or partly included in such models—are treated on consolidation and how they interact with group-level externalisation.

36 One possible approach would be to aggregate, at consolidated level, the RMA adjustments measured locally for the same mitigated risk, while continuing to eliminate intragroup contracts included in the underlying items in accordance with IFRS 10. However, non-derivative intragroup transactions included in different RMA models may create technical complexity where the related benchmark derivatives do not offset—for example, because the models use different time horizons or levels of hedging.

37 Reconstructing the RMA model using group-level data would increase implementation costs and require significant systems, data and governance work. It would also require a robust, auditable mechanism to allocate the cost of external hedges and any ineffectiveness to each subsidiary whose position forms part of the net exposure. Such a reconstruction would, moreover, depart from the way risk is managed.

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

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

The IASB proposes that an entity determines 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.

EFRAG's response

38 EFRAG supports the IASB's proposal that an entity determines the net repricing risk exposure by aggregating the repricing risk arising from underlying portfolios and that the entity determines the net repricing risk exposure in a manner that is consistent with how it makes risk management decisions. EFRAG also supports the IASB not requiring risk limits per repricing time band.

39 However, based on the extensive feedback from banking and insurance constituents, EFRAG is concerned that the proposed NRRE may not faithfully represent how repricing risk is managed in practice. The proposed calculation could add operational complexity and artificial volatility and produce different accounting outcomes for economically similar risk management activities[4]. A model that departs from the positions actually managed may also create incentives to change hedging decisions for accounting reasons rather than to achieve genuine risk management objectives. The principal concerns are set out below.

40 First, as explained in our response to Question 2, excluding exposures that are managed on a net basis from the underlying portfolios means that the NRRE will not reflect the net risk position actually managed.

41 Second, the proposed NRRE appears to be an accounting construct rather than a representation of the managed risk position. Banks and insurers generally manage interest rate risk by reference to their net open position, taking account of all exposures, natural

[4] E.g. an NRRE exposure will be decided based on whether a Chapter 6 designation has or has not taken place.

offsets between assets and liabilities[5], and derivatives used to mitigate those exposures. The proposed NRRE, by contrast, excludes derivatives unless they form part of a hedged position.

42 Third, repricing time bands are not used consistently across banks and are rarely used by insurers. The IASB should clarify how entities that manage interest rate risk without time bands can apply the RMA model.

43 Fourth, requiring a single measure for each repricing time band does not reflect the practices of many banks. Net Interest Income ('NII') and Economic Value of Equity ('EVE') are complementary measures of interest rate risk. Hedging decisions are often made at aggregate portfolio level, taking account of their combined effects on the entity's risk profile and limits. Where time bands are retained, entities should therefore be permitted to use both cash flow and fair value measures within the same repricing time band when this reflects the concurrent management of NII and EVE; for example, hedging strategies relating to the Equity Model Book often involve a trade-off between NII and EVE.

44 This is also relevant to paragraph BC65 of the ED, which requires the NRRE to be determined using the measures applied in the entity's risk management strategy. The IASB should therefore permit a multi-metric RMO or provide another mechanism that reflects the joint use of cash flow and fair value measures at aggregate portfolio level, without artificially splitting an integrated strategy by metric and time band.

45 Fifth, some entities manage interest rate risk through separate frameworks, each with its own risk sources, governance, limits and hedging objectives, rather than through one aggregated net position. The Standard should make clear that an entity may apply separate RMA models to distinct risk management frameworks.

46 Sixth, further guidance is needed where an entity manages the same mitigated rate at several levels within the reporting entity, such as individual portfolios, business units or legal entities. This guidance should also address how to treat the differences in mitigated time horizons and repricing time bands, and how to apply the RMA model if the measure

[5] In a large number of situations, the aggregated or net position managed may consist of only non-derivatives constituting long or short exposures. In risk management, entities do not separate such situations from situations where the aggregated position consists of offsetting long and short non-derivative positions. An RMA model should work for entities managing dynamic aggregated position independent of whether there are offsetting positions within the aggregated position.

the entity uses to quantify the NRRE in one or more repricing time bands (for example, a cash-flow- or fair-value-based measure) varies within the reporting entity.

47 Seventh, entities may manage economically linked exposures together across currencies. Requiring or implying separate NRREs by currency could fragment the managed position and fail to reflect the hedging strategy. Similarly, limiting an NRRE to a single mitigated rate may not reflect practice, where exposures linked to different benchmark rates are managed dynamically together. This is particularly relevant in the euro area, where entities may manage instruments linked to several reference curves and tenors (for example, Euribor 1M, 3M, 6M and 12M, and €STR) within one framework.

48 Eighth, the ED focuses primarily on linear repricing risk—the timing and amount of repricing against benchmark interest rates. It is unclear whether non-linear exposures, including volatility risk (IR vega), convexity and embedded optionality, are within the scope of the NRRE. Such exposures cannot always be represented by a single repricing profile. The IASB should clarify whether, and how, they are captured by the NRRE and the RMA measurement requirements.

49 Ninth, entities should be able to determine the NRRE using the ALM metrics they actually use to manage and communicate interest rate risk, including fair value and present value sensitivities, without having to convert them into cash flows. Insurers may use duration gaps, PV01/DV01[6], economic-value sensitivities, solvency-ratio sensitivities and other prudential metrics. Where prudential metrics are used, a reconciliation to IFRS-based measures should suffice; a full bottom-up IFRS reconstruction should not be required. The IASB should also explicitly permit reasonable and supportable insurance-specific behavioural and actuarial assumptions used to measure IFRS 17 liabilities when determining expected repricing dates.

Question 4 – Designated derivatives (Section 7.3)

Question 4—Designated derivatives (Section 7.3)

[6] PV01 (Present Value of One Basis Point) and DV01 (Dollar Value of One Basis Point) are measures of interest rate sensitivity that quantify the change in the value of a position resulting from a one-basis-point change in interest rates.

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.

EFRAG's response

50 EFRAG agrees that designated derivatives should be external to the reporting entity or, where internal derivatives are used, clearly linked to derivatives with an external counterparty. This is consistent with IFRS 9 hedge accounting. Externalisation need not be on a one-to-one basis, but entities should have clear processes and controls to demonstrate that internal derivatives are appropriately externalised at group level. See paragraphs 35 to 37 on intragroup application and consolidation.

51 EFRAG nonetheless requests the following clarifications.

(a) The Basis for Conclusions indicates that all interest rate derivatives, including options and swaptions, may be identified as designated derivatives. EFRAG recommends including this clarification in the Standard itself.

(b) Further guidance is needed on how options are treated, including the amount of repricing risk they mitigate, the application of the benchmark derivative concept, and the treatment of option premiums and time value in the RMA adjustment and its subsequent amortisation or recycling. Some entities suggest separating option time value and accounting for it as a cost of hedging, consistently with IFRS 9.6.5.15. EFRAG is of the view that the IASB should consider this approach further.

(c) The IASB should clarify when off-market derivatives may be designated and how their characteristics, including their initial fair value, are reflected in the RMA model. This issue also arises on transition and after de-designation (see our response to Questions 7 and 9).

52 Some insurers have asked that non-derivative instruments measured at FVPL also be eligible as designated instruments. In jurisdictions where derivatives are restricted, insurers may use long-duration debt instruments measured at FVPL, in addition to or instead of swaps, to hedge duration gaps. IFRS 9.6.2.2 permits such instruments to be designated as

hedging instruments, and the IFRS 17 risk mitigation option was extended to them in 2020 (IFRS 17.B115). When these instruments are used to mitigated risk, they should be excluded from the NRRE to avoid conflating the exposure with the instruments used to hedge it.

53 Constituents also report operational difficulties in identifying designated derivatives where risk is managed on an overall or global net basis. In particular, separating derivatives eligible for RMA from those relating to exposures outside its scope may be difficult. This illustrates the practical consequences of a model that is not aligned with actual risk management.

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

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

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.

EFRAG's response

54 The RMO, construction and adjustment of benchmark derivatives, treatment of unexpected changes and RMA excess test are closely interrelated and should be considered together.

Question (a) (Risk mitigation objective)

55 Banks and insurers usually do not fully hedge their exposure. Their risk appetite is generally defined as ranges (for example, a duration gap within plus or minus a stated number of

years), and they deliberately hold a non-zero residual exposure within those ranges. When defining the RMO, the RMA model, with its focus on mitigation per repricing time band and the lower-of test in paragraph 7.4.8 of the ED, departs from those risk management strategies that are agnostic as to the sign of the exposure as long as it stays within the specified limit(s). In this regard, EFRAG refers to the requirement in paragraphs 7.4.8 and 7.4.9 of the ED concerning over-hedging, i.e. that any remaining gain or loss on the designated derivatives that was not recognised as part of the RMA adjustment shall be recognised in profit or loss. While this requirement represents the accounting logic similar to existing hedge accounting rules, it may represent a departure from actual risk management (please refer to Question 1 concerning the primary objective of the RMA model), where the difference between over-hedging and under-hedging of similar magnitude is not as significant as it is in terms of accounting. This is a critical issue for banks and insurers.

56 In addition, over-hedging in one time band while under-hedging in another may represent an entity's actual risk management and may occur simultaneously at multiple locations over the mitigated time horizon. Some entities may do this because, for example, there may not be swaps for all currencies covering different maturities. An entity may have a position in Year 11 but, because of illiquidity in the market, it may trade a ten-year swap, thereby resulting in an over-hedge in Year 10 but an under-hedge in Year 11. Therefore, should the time-bands principle be preserved, EFRAG requests a relief from the requirement in paragraphs 7.4.1 and 7.4.7 of the ED on the impact of over-hedging, i.e. that the cap be allowed to be applied at the portfolio level rather than in each repricing time band. However, this should not be interpreted as permitting genuine over-hedging to remain unrecognised in P&L. Where relevant evidence indicates that the designated derivatives exceed the exposure actually mitigated, the model should include robust safeguards to ensure that the resulting effect is appropriately reflected in P&L.

Question (b) (Construction of benchmark derivatives)

57 Multiple issues arise from the requirement stipulated in paragraph 7.4.5 of the ED that an entity shall construct new benchmark derivatives to have an initial fair value of zero based on the mitigated rate. Without objecting to this requirement conceptually, EFRAG notes strong feedback from constituents that this requirement may not work as intended in certain situations, most importantly at transition (see Question 9), following acquisitions and business combinations and where non-linear hedging instruments are used. EFRAG

proposes that the IASB consider whether it would be worthwhile to provide an exception to the general principle in these situations.

Question (c) (Adjusting benchmark derivatives and unexpected changes)

58 The term 'unexpected changes' is widely used throughout the ED but most notably in the section dealing with the RMO and benchmark derivatives.

59 EFRAG has heard different views in relation to unexpected changes:

(a) one view is that the effects of routine business activities or normal portfolio turnover should not be seen as unexpected changes.

(b) another view is that a broad restriction as reflected by the first view may result in a situation where the benchmark derivatives no longer represent the NRRE the entity is managing and would result in not recognising genuine ineffectiveness when routine business leads to over-hedging.

60 The ED does not define 'unexpected changes', resulting in differing interpretations among constituents. EFRAG proposes that the IASB should define the term and provide practical examples distinguishing unexpected changes from routine portfolio updates, changes in assumptions, model recalibrations and market movements in a dynamic risk management environment. The guidance should also explain how entities may use reasonable and supportable information without undue cost or effort, as contemplated in paragraphs B7.4.13 and B7.4.14 of the ED. Given the importance of this concept, the proposed definition should be re-exposed and applied consistently in future field testing[7] to support comparability.

61 EFRAG suggests that the IASB should also clarify how benchmark derivatives are adjusted, supported by practical examples. Constituents report significant uncertainty about the required methodology.

Cost-benefit considerations and operability concerns

62 This part of the model presents significant operational challenges, particularly because it requires extensive tracking of underlying portfolios, unexpected changes, benchmark derivatives, gross positions and time-band allocations. The ED provides some relief where

[7] Inconsistent interpretation of unexpected changes may have diminished comparability of field test results in the current field tests.

reasonable and supportable information about the effects of unexpected changes is unavailable without undue cost or effort: the entity may deem those changes to have occurred when the RMO was last specified. However, this would result in more frequent excess tests thus resulting in further operational complexity.

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

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

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.

EFRAG's response

(a) Risk mitigation adjustment

63 As stated above, EFRAG is of the view that an RMA model for interest rate risk should be available to banks and insurers. Its requirements should be sufficiently flexible to reflect differences in balance-sheet measurement bases and the related accounting mismatches.

64 EFRAG's outreach indicates that most banks support recognising the RMA adjustment in the statement of financial position. A minority also seek a presentation solution for the portion attributable to FVOCI financial instruments.

65 For insurers, the appropriate presentation of the RMA adjustment depends on how the repricing effects of the exposures in each NRRE are predominantly recognised:

(a) Where those effects are predominantly recognised in OCI, presenting the RMA adjustment in OCI would provide the closest alignment.

(b) Where the managed exposure in a given NRRE is predominantly recognised under IFRS Accounting Standards but not remeasured for changes in interest rates (for example financial instruments at amortised cost, or the CSM where the entity manages it as funding of its assets), or is not recognised under IFRS Accounting Standards, the statement-of-financial-position presentation proposed in the ED would be more appropriate.

(c) Where the managed exposure in a given NRRE are predominantly remeasured through profit or loss (for example business measured under the general measurement model without the OCI option and backed by assets at FVPL), the offset with designated instruments already arises in profit or loss, and no recognition of an RMA adjustment is required to mitigate an accounting mismatch.

66 Insurers generally support one unified NRRE for each net exposure managed. They do not support allocating a single RMA adjustment between OCI and the statement of financial position based on the measurement attributes of the underlying portfolios, as this would be operationally impracticable.

67 EFRAG encourages the IASB to consider these presentation outcomes when redesigning and re-exposing the model. Any approach based on the proportion or predominance of measurement attributes would require additional tracking compared with the ED's uniform presentation. It could also reduce comparability between entities and for the same entity over time as the measurement mix changes.

68 Referring to the lower-of test in paragraph 7.4.8 of the ED, EFRAG raises three concerns.

(a) The cumulative lower-of test may be conceptually appropriate for a cash flow hedge with a defined start and end date, where accumulated changes relate to a clearly defined period. Its rationale is less evident for a continuing representation of dynamic risk management, which has no equivalent defined accumulation period.

(b) It is also difficult to interpret the combined effect of periodic lower-of tests used to determine the RMO and the cumulative lower-of test used to determine the RMA adjustment.

(c) The wording may imply that cumulative gains or losses exclude designated derivatives that have been derecognised. If so, the result could depend on whether an entity settles derivatives or enters into offsetting derivatives when adjusting its position. If that interpretation is incorrect, the IASB should clarify how entities are expected to track the data needed for the cumulative lower-of calculation and any related excess test.

(b) Indication of risk mitigation adjustment excess

69 EFRAG is supportive of the principle that the RMA adjustment never exceeds the total benefits expected over the mitigated time horizon. Under the approach explained in the ED, an entity will first adjust the benchmark derivatives when unexpected changes reduce the net repricing risk exposure below the risk mitigation objective (conform with paragraphs 7.4.6 - 7.4.7 of the ED). After that, if the entity is unable to capture the effect of these unexpected changes, the excess test works as a backstop (paragraph 7.4.11 of the ED). This approach ensures that if there is an indication that part of the amount accumulated as the RMA adjustment may not be realised in full over the mitigated time horizon, it should be recognised in profit or loss. However, EFRAG is not supportive of the proposed methodology for measuring this excess as the field tests have shown that it leads to significant and undue volatility and, above all, does not reflect risk management. Therefore, EFRAG therefore recommends fundamentally redesigning the test. Although EFRAG is, at this stage, not in a position to propose an alternative measurement method, it is ready to work with the IASB and draw on its working groups' expertise to develop one.

70 The excess test also raises conceptual and operational questions about calculating the present value of the NRRE, including the treatment of modelled equity and demand deposits. EFRAG suggests that, if the IASB retains a present-value approach, it should clarify the discount rate to be used, including whether the reference to the mitigated rate in paragraph 7.4.13 of the ED is intended to have characteristics similar to the discount rates described in paragraph 36 of IFRS 17.

71 Further guidance is needed on the indicators that would demonstrate an 'excess' for the purposes of paragraph 7.4.11 of the ED. The example 27 in the Illustrative Examples is not sufficient.

(c) Measurement and recognition of risk mitigation adjustment excess

72 EFRAG is concerned about the measurement of the NRRE. EFRAG notes that the present value of the NRRE depends on modelling assumptions, entity-specific behavioural expectations and valuation methodologies. Using such a value in the excess test may lead to:

(a) an outcome that is highly dependent on the timing of the hedge execution;

(b) a situation where normal portfolio management activities affect the outcome of the excess test;

(c) economically similar portfolios producing different accounting outcomes because the path through which the portfolio evolved was different (path-dependent outcomes);

(d) excess test effects if there is under-hedging in certain circumstances, despite the absence of economic over-hedging, and, once recognised, the effects being difficult or impossible to reverse.

73 As a result, EFRAG has strong reservations about present valuing the NRRE both from a conceptual and operational perspective.

74 EFRAG notes that, according to paragraph B7.4.16 of the ED, the RMA adjustment is not required to be remeasured at the same frequency as the RMO and the benchmark derivatives. In EFRAG's view, this requirement may provide flexibility and, to a certain extent, relieve the operational burden of running the model on a daily/weekly basis.

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

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

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.

EFRAG's response

75 EFRAG expects discontinuation of RMA to be rare and considers that it should occur only when necessary to provide more relevant information.

76 EFRAG agrees that changes to how an entity manages repricing risk that are no longer consistent with its risk management strategy should trigger prospective discontinuation. Changes arising from the dynamic nature of repricing risk should not. In particular, the following should not trigger discontinuation:

(a) changes in business activity, portfolio composition or volumes;

(b) changes in risk limits;

(c) day-to-day changes in market conditions;

(d) changes in actuarial or behavioural assumptions;

(e) changes in regulatory discount curves;

(f) changes in the regulatory framework itself;

(g) improvements to modelling techniques or internal methodologies used to quantify the NRRE;

(h) migration from one benchmark rate to another, when it results from regulatory changes; and

(i) a documented and pre-planned change in the risk metric used for monitoring.

77 EFRAG is willing to work with the IASB, drawing on its working groups' expertise, to develop examples of changes that would constitute a change in risk management strategy that should result in discontinuation of RMA.

78 Constituents expressed differing views on paragraph B7.5.3 of the ED, which treats a change in measurement time horizon or a switch between cash flow and fair value measures as requiring discontinuation. Some consider this appropriate; others disagree

because it is common practice to change the profile or duration of the equity model book—including shortening or extending the horizon, or changing allocations across time buckets, thereby causing frequent discontinuations. EFRAG suggests that the IASB should establish criteria to distinguish changes that warrant discontinuation from those that do not.

79 Although identifying a change in risk management strategy involves judgement, this may be difficult in practice. For example, it may be difficult to clearly distinguish changes in 'how the entity manages the risk' from changes in the RMO, or to separate changes in the underlying portfolios included in the NRRE from changes to the time horizon and changes in the risk management level.

80 It may also be difficult to determine whether the RMA adjustment will continue to affect future profit or loss.

81 EFRAG asks the IASB to clarify the distinction between changes in key risk metrics and improvements in measurement techniques.

82 The IASB should also clarify whether changes to the structure of repricing time bands, as described in paragraphs B7.5.3 and B7.5.4 of the ED, represent a change in risk management strategy or merely a change in risk management activities.

83 EFRAG recommends including the guidance in paragraphs BC124–BC126 of the ED in the application guidance, as it explains how an entity may treat financial instruments after discontinuing RMA.

84 The ED should clarify whether an entity must perform an RMA adjustment excess assessment when RMA is discontinued. Paragraph 7.5.3 appears to require the entity to assess whether repricing differences from the underlying portfolios are still expected to affect profit or loss and, if so, continue the adjustment under paragraph 7.4.10 (recycled to NII). If those differences are no longer expected to affect profit or loss, the remaining economic benefit represented by the RMA adjustment should be recognised immediately in profit or loss. This is similar to the treatment of discontinued micro-hedges under IFRS 9. EFRAG suggests that further guidance would be helpful.

85 The ED also leaves several practical questions unanswered when RMA is discontinued:

(a) If discontinuation occurs during a reporting period, rather than at the reporting date, must the entity perform the same procedures as at a reporting date (including the lower-of test and any excess assessment)?

(b) How should a subsequent RMA model be established? For example, may existing derivatives with non-zero fair values at the date of discontinuation be designated under the new model?

86 EFRAG asks the IASB to clarify that, following discontinuation, an entity need not continue measuring the NRRE and benchmark derivatives of the discontinued relationship unless the repricing differences are no longer expected to affect profit or loss. Otherwise, entities could face a disproportionate burden maintaining calculations for RMA adjustments that may be released over many years or, for some portfolios, decades.

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

Question 8

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?

EFRAG's response

87 EFRAG considers that the RMA model proposed in the ED is not yet a sufficiently robust or operationally viable alternative to the existing IAS 39 hedge accounting requirements, including the IAS 39 carve-out widely applied in Europe.

88 Therefore, EFRAG encourages the IASB to address the conceptual and operational issues identified in this letter that may require fundamental changes to key features of the model, e.g., the excess test and requirements reflecting the specificities of insurance activities. The

revised model could therefore differ significantly from the ED. EFRAG recommends that the IASB address these issues, re-expose the revised proposals and subject them to further outreach and field testing before deciding to withdraw IAS 39.

89 Once the fundamental issues have been resolved and the revised model has demonstrated that it faithfully represents the dynamic management of interest rate risk by banks and insurers, EFRAG does not support an unnecessarily lengthy transition period. The period should reflect the time needed to implement required systems and process changes and should not be significantly longer than that granted for other major IFRS Accounting Standards. The IASB should, however, take account of the transition needs of European banks that apply IAS 39 to micro-hedging and would also need to move to the general IFRS 9 hedge accounting requirements.

90 EFRAG recognises that insurers face some issues distinct from those of banks and that further work is needed to reflect insurance asset-liability management appropriately. Nevertheless, EFRAG supports that the objective should remain a comprehensive model that banks, insurers and other entities can apply consistently and at the same time.

91 In EFRAG's view, addressing the concerns raised by both banking and insurance constituents through one industry-agnostic model would promote comparability and faithfully represent risk management. It would also avoid the conceptual and operational difficulties that could arise for financial conglomerates if banking and insurance activities were subject to separate models.

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

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

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.

EFRAG's response

92 EFRAG agrees with prospective application of the RMA model and the transition reliefs in paragraphs C2.58 and C2.59 of the ED. These reliefs would allow entities to adopt an accounting method that may better reflect the effects of their risk management activities.

93 EFRAG recommends allowing entities, on transition, to reassess the IFRS 9 classification of financial assets (similar to paragraph C29(a) of IFRS 17), discontinue the IFRS 17 risk mitigation option (paragraphs B115–B118), and reassess the application of the IFRS 9 fair value option.

94 EFRAG disagrees with the requirement that benchmark derivatives have a zero fair value on transition from previous hedging relationships. This could create artificial volatility and operational complexity, depart from actual risk management, affect the lower-of test and incentivise entities to terminate and re-enter hedges for accounting reasons. Some constituents suggest permitting off-market benchmark derivatives, with periodic pull-to-par adjustments[8] against the RMA adjustment.

[8] An off-market benchmark derivative starts with a fair value different from zero, but this initial value naturally declines over time and converges to zero as the remaining hypothetical cash flows run off. If no adjustment were made, this automatic reduction in fair value would be captured in the RMA adjustment, even though it is unrelated to changes in interest rates occurring after designation. As a result, a residual balance equal to the initial fair value would remain in the RMA adjustment at the end of the hedge period.

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

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

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.

To avoid this outcome, the initial fair value of the benchmark derivative, which largely equals the designated derivative's PV at T0, is amortised over the remaining life of the benchmark derivative. This amortisation reduces the RMA adjustment and ensures that the RMA reflects only value changes arising from post-transition market movements, with no residual balance remaining at the end of the duration of the benchmark derivative.

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

EFRAG's response

Presentation requirements (paragraph 30E of the ED)

95 EFRAG generally agrees with the presentation requirements in proposed paragraph 30E of IFRS 7.

96 The IASB should clarify whether, following discontinuation, an RMA adjustment may be offset against other RMA adjustments on the statement of financial position when one is an asset and another a liability. Paragraph 7.10 of the Conceptual Framework indicates that offsetting is generally inappropriate.

97 In addition, EFRAG notes, in the context of the ED proposals on presentation, insurers' concerns for entities with material repricing risk exposures arising from financial instruments measured at fair value through OCI (further detailed in Questions 6 and 11).

Disclosure requirements (paragraphs 30F-30P of the ED)

98 EFRAG welcomes the disclosures proposed in paragraphs 30F–30P of the ED. Mandatory RMA disclosures would be a significant improvement, particularly in Europe. In EFRAG's view, the proposals should improve the information available to users and comparability between financial statements.

99 To make disclosures more useful and less costly, as well as to reduce related operational challenges, the scope of the RMA model should reflect actual risk management (see paragraphs 20 - 21). Greater divergence would make the disclosures less relevant, more costly to produce.

100 Entities already provide substantial information about interest rate risk management in other reports, including Pillar 3 and Solvency II reports. Therefore, in EFRAG's view, the ED disclosures should focus on information arising specifically from applying RMA, rather than duplicate information available elsewhere. This is particularly important where differences between the RMA model and actual risk management could make it difficult for users to reconcile the disclosures with those other reports.

101 In EFRAG's view, the proposed requirements generally follow this approach and entities may, where appropriate, incorporate information by cross-reference[9], as permitted under existing IFRS 7 requirements[10]. However, cross-referencing to documents outside the scope of the audit, such as solvency and financial condition reports, may require auditors to extend their procedures to that information.

102 The IASB should also ensure that disclosures do not require commercially sensitive information. Constituents identify behavioural assumptions (particularly for non-maturity deposits), portfolio construction and repricing time-band breakdowns as examples. EFRAG emphasises the importance of appropriate aggregation and granularity requirements which could help mitigate this concern.

103 Constituents consider that the sensitivity analysis in paragraph 30K, which focuses on RMA-scope accounting sensitivities, may not reflect banks' overall risk positions or actual risk management practices and could confuse users. EFRAG recommends removing or substantially revising these requirements.

104 Also, in EFRAG's view, the IASB should explicitly require disclosure of how credit risk is incorporated into the calculation of the NRRE under paragraph 30I(c) of the ED.

Disclosure requirements in paragraph 33A of the ED

105 Constituents expressed mixed views on the disclosures proposed in paragraph 33A for entities that do not apply RMA. Most opposed them, citing their inconsistency with the model's voluntary nature, the associated burden and doubts about their usefulness. A significant minority supported them, emphasising comparability and the limited cost of qualitative disclosures. If retained, EFRAG recommends that these disclosures remain qualitative only. EFRAG also notes that equivalent disclosures are not required under the general hedge accounting requirements in paragraphs 21–24 of IFRS 7.

Question 11 – Risk management strategy

Question 11—Risk management strategy

The questions below relate specifically to entities that issue insurance contracts as defined in IFRS 17 *Insurance Contracts*. When answering these questions, respondents should assume

[9] Normal conditions for cross-referencing in IFRS 7 should apply.

[10] Paragraph 21B of IFRS 7

that insurance contract assets and liabilities are eligible to be included in underlying portfolios in accordance with paragraph 7.2.1 of the ED.

Based on the proposals in this Exposure Draft:

(a) please describe the extent to which your risk management strategy and activities align with, or differ from, the descriptions in paragraphs 7.1.1–7.1.2; and

(b) please describe the extent to which your business and risk management activities align with, or differ from, the characteristics described in paragraph 7.1.4.

Would the proposals for risk mitigation accounting in this Exposure Draft achieve the IASB's objective of better representing in the financial statements the economic effects of your activities for managing repricing risk compared with the currently available accounting options? Please explain why or why not, and what you would suggest instead.

EFRAG's response

Overall comments

106 When developing IFRS 17 *Insurance Contracts*, the IASB concluded that it would not be appropriate to develop a bespoke solution for all hedging activities for insurance contracts, noting that such a solution should form part of a broader project[11].

107 EFRAG welcomes the IASB's request for feedback from insurers on whether their interest rate risk management can be reflected through RMA. EFRAG is of the view that an industry-agnostic model is also needed for entities issuing insurance contracts under IFRS 17, to better represent asset-liability management, reduce accounting volatility and address mismatches.

108 The following paragraphs summarise the principal insurer-specific issues raised in EFRAG's outreach and in responses to the ED. They complement the relevant comments made under the individual questions.

Significant issues currently faced in accounting for interest rate risk management practices

109 EFRAG agrees with some stakeholders that have identified the following significant shortcomings in current accounting:

[11] Paragraph BC55 of IFRS 17.

(a) IFRS 9 does not adequately address accounting volatility and mismatches that remain when insurers recognise interest rate changes in both insurance contract liabilities and backing assets in OCI, while recognising changes in the fair value of derivatives used to align the cash flows in profit or loss. Nor was IFRS 9 designed to reflect a dynamically managed net position across an open portfolio.

(b) Using insurance liabilities as hedged items under IFRS 9 is also difficult. The highly probable criterion is challenging to demonstrate for very long-term contracts, while the separately identifiable and reliably measurable criteria require significant judgement. New business can be added to existing hedges only if it is highly probable, which is itself difficult to demonstrate. These restrictions reduce the applicability of hedge accounting and significant create operational burdens.

(c) IFRS 17 partly addresses these issues through the risk mitigation option, but only for financial risk affecting the CSM and therefore for contracts measured under the Variable Fee Approach (VFA). No equivalent option is available for contracts without direct participation features.

Question (a) Extent to which risk management aligns or differs from paragraphs 7.1.1-7.1.2 of the ED

110 In the Current practice survey, 47% of insurer respondents reported managing interest rate risk dynamically, with most doing so at both group and subsidiary or branch level.

111 The survey summarises insurers' current dynamic interest rate risk management practices. The main findings below are also supported by other constituent feedback, including comment letters received.

112 The following were the most common significant interest rate exposures explained by the respondents.

(a) Exposure to different discount rates sensitivities (e.g. the duration of assets being shorter than that of liabilities triggering a duration gap). The valuation of insurance liabilities depends on discount rates (present value of future cash flows), which are influenced by interest rates. A decrease in interest rates increases the present value of liabilities to a larger extent than it increases the present value of assets. Another example would be the risk of suffering an economic loss in the event of falling interest rates, as maturing assets are reinvested at lower rates prior to the maturity of the liabilities if the duration of the assets is shorter than that of the liabilities.

(b) *Guaranteed benefits*. Certain insurance products, such as long-term guaranteed or variable annuities, include crediting or guaranteed rates that may not align with prevailing market interest rates. This creates a risk of insufficient returns on underlying assets to meet these guarantees in case of a prolonged low interest rate environment.

(c) *Policyholder behaviour*. Dynamic policyholder behaviour, such as lapses or surrenders, can be influenced by interest rate changes. For example, policyholders may surrender contracts to seek higher returns elsewhere during periods of rising interest rates, and the insurer could be forced to sell bonds below book/fair value and incur losses.

113 The ED focuses on the term 'repricing risk', which could be viewed as specific to the banking industry. EFRAG asks the IASB to confirm that repricing risk encompasses the sensitivity of both sides of the balance sheet to changes in benchmark interest rates, as measured for risk management purposes. This includes the discount-rate sensitivity of insurance contracts and the market-value and reinvestment sensitivities of invested assets. It should also encompass the CSM where the entity manages it as funding for its assets, similar to demand deposits[12] on the CSM).

114 *Management on a net basis*. Most of the respondents who replied to the Current practice survey stated that they calculate the interest rate risk position(s) managed dynamically on a net basis, considering the assets and liabilities / Solvency II own funds and solvency capital requirements.

115 *Basis for managing dynamic interest rate risk position*. Six out of nine respondents to the Current practice survey manage their dynamic interest rate risk position based on internal risk management targets, while two other respondents manage it based on regulatory reporting. One respondent manages it based on both internal and regulatory targets.

116 *Underlying portfolios*. Refer to our response to ED Question 2 for additional items to be included in the scope. Although the CSM is not directly sensitive to interest rates in the

[12] As per paragraph BC42 of the ED, although demand liabilities can be withdrawn with little or no notice by the instrument holders, in practice they can be quite stable and long-term, despite holders receiving no interest or interest at a low rate. Entities often identify a portion of their demand deposit portfolio that is considered to be insensitive to changes in market interest rates and treat this portion as fixed-rate liabilities for risk mitigation purposes.

same way as fulfilment cash flows, it forms part of the economic funding structure of assets backing insurance liabilities. Therefore, insurer stakeholders consider that it should be eligible to be included in an RMA model or considered through a proxy, when it is relevant to the ALM strategy used to mitigate interest rate risk.

117 EFRAG concludes that, given the information collected in the Preparer survey and comment-letter feedback, insurers' risk management tends to align with the criteria in paragraphs 7.1.1 and 7.1.2 of the ED, subject to changes discussed above.

118 The RMA model should be available for insurance contracts under all IFRS 17 measurement models where interest rate risk is managed. Insurers often manage VFA and non-VFA portfolios together, and macro-hedging strategies may cover the full range of insurance assets and liabilities.

Question (b) Extent to which risk management aligns or differs from paragraph 7.1.4 of the ED

The entity's business activities give rise to the recognition and derecognition of financial instruments that expose it to repricing risk

119 Refer to the above regarding the interest rate exposures for insurers and the terminology on repricing risk.

The entity's risk management strategy specifies risk limits within which repricing risk, based on a mitigated rate, is to be mitigated

120 The Preparer survey indicates that the NRRE and benchmark derivatives should be expressible using the metrics insurers actually apply, including duration gaps, PV01/DV01, fair value and economic-value sensitivities, and solvency-ratio sensitivities.

121 *Time bands (also relevant to banks; see Question 3, paragraph 38 and Question 5, paragraphs 55 and 56).* Some insurers do not manage risk per time band but set risk limits on an overall basis. EFRAG supports the IASB not requiring risk limits per repricing time band.

The entity mitigates repricing risk arising from underlying portfolios on a net basis using derivatives in accordance with its risk management strategy

122 *Net basis*. Most insurer respondents manage their dynamic interest rate risk position on a net basis. Five of the nine respondents assess that position monthly, increasing the frequency when needed (for example, under stress scenarios); the remaining four assess it daily or more frequently.

123 *Use of derivatives*. Based on the Current practice survey, Preparer survey and comment-letter feedback, EFRAG considers that insurers' practices generally meet the criteria in paragraph 7.1.4 of the ED. However, the model would need to address the matters discussed above and in the responses to the relevant ED questions.

Significant insurance aspects to consider for the RMA model

124 Most of the issues raised by insurers are also relevant to banks. These include the eligibility of additional exposures regardless of their IFRS classification and measurement (Question 2); determination of the NRRE, including the use of risk management metrics and prudential measures (Question 3); repricing time bands (Questions 3, 5 and 11); the treatment of over-hedging and unexpected changes, including the excess test (Questions 5 and 6); changes that should not trigger discontinuation (Question 7); the use of options and off-market derivatives (Question 4); and transition arrangements (Question 9).

125 Insurers also highlight several matters requiring particular attention: recognition and presentation of the RMA adjustment (Question 6); eligibility of all components of insurance contracts in determining the NRRE (Question 2); eligibility of non-derivative FVPL instruments as designated instruments (Question 4); and the interaction of the transition provisions with IFRS 17 and IFRS 9 (Question 9).

126 The IASB should also clarify the discount rate used to calculate the present value of the NRRE (Question 6).

127 Changes that should not trigger discontinuation for banks and insurers are discussed in our response to Question 7.

128 Unless these matters are addressed, the model as drafted will not provide a meaningful improvement for insurers. EFRAG supports the IASB's objective of developing an accounting solution that better reflects insurers' dynamic interest rate risk management and is ready to contribute its working-group expertise to developing a comprehensive model that banks and insurers can apply consistently.