



Project:	Risk Mitigation Accounting	Meeting:	AASB October 2026 (M223)
Topic:	Responding to IASB Exposure Draft	Agenda Item:	5.0
		Date:	15 October 2026
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		Decision-Making:	Low
		Project Status:	Developing comment letter to the IASB

Objective of this agenda item

- The objectives of this agenda item are for the Board to:
 - consider Australian stakeholders' feedback on IASB [Exposure Draft/2025/1 Risk Mitigation Accounting: Proposed amendments to IFRS 9 and IFRS 7](#), as reflected in the draft comment letter (Agenda Paper 5.1); and
 - if appropriate, approve the comment letter for finalisation out of session.

Attachments

Agenda Paper 5.1	Draft comment letter to the IASB
Agenda Paper 5.2	Exposure Draft ED 339 <i>Risk Mitigation Accounting</i> (in supplementary folder)
Agenda Paper 5.3	CA ANZ and CPA Australia Preliminary Views (Board-only, in supplementary folder)

Background

- In December 2025, the IASB published [Exposure Draft/2025/1 Risk Mitigation Accounting: Proposed amendments to IFRS 9 and IFRS 7](#) for 240 days. Subsequently, the IASB extended the deadline for comments from 31 July 2026 to 30 November 2026 to provide more time for entities to carry out field testing on the proposals.¹
- On 11 December 2025, the AASB issued the Australian equivalent [Exposure Draft – ED 339 Risk Mitigation Accounting: Proposed amendments to AASB 9 and AASB 7](#), with comments initially due by 15 May 2026. Following the IASB's decision to extend the comment period, the AASB extended the comment period for ED 339 to 18 September 2026.
- No formal submissions were received on ED 339. Staff have therefore prepared the draft comment letter (Agenda Paper 5.1) using feedback obtained through two roundtable discussions and informal stakeholder feedback.

¹ See [Request for fieldwork](#) document.

Why the IASB is proposing risk mitigation accounting

- 5 The Exposure Draft proposes a voluntary risk mitigation accounting (RMA) model to address limitations in existing hedge accounting requirements when entities manage repricing risk on a dynamic, net basis across open portfolios. The Exposure Draft defines repricing risk as a type of interest rate risk that exposes an entity to variability in the cash flows from, and the fair value of, financial instruments, arising from differences in:
- (a) the timing of when financial instruments reprice to benchmark interest rates; and
 - (b) the amount of financial instruments that reprice in a particular period.
- 6 In practice, banks manage repricing risk on a net basis across open portfolios of assets and liabilities. For example, a bank might have the following assets and liabilities in its portfolio:

Fixed-rate loans	\$1,000
Variable-rate loans	<u>\$500</u>
[A] Assets	\$1,500
Deposits	(\$1,200)
Wholesale funding	<u>(\$200)</u>
[B] Liabilities	(\$1,400)
Net repricing risk exposure [A] – [B]	<u>\$100</u>

- 7 In the above example, the bank would typically hedge the net repricing risk exposure of \$100 by entering into derivatives that offset the risk associated with that \$100 net position, rather than hedging individual assets and liabilities. That net exposure changes continuously as loans are originated, repaid or repriced, deposits are received or withdrawn, and expectations about future transactions evolve. Accordingly, repricing risk is generally managed on a dynamic, net basis across open portfolios rather than by reference to a fixed set of individual instruments.
- 8 However, existing hedge accounting requirements are primarily designed for individual hedging relationships or closed portfolios. Consequently, entities may find it difficult to faithfully represent the economic effects of their repricing risk management activities in their financial statements, which can give rise to:
- (a) accounting outcomes that do not faithfully reflect how repricing risk is managed in practice; and
 - (b) accounting mismatches between the underlying portfolios and the derivatives used to mitigate repricing risk.
- 9 The IASB developed the proposed RMA model in response to feedback from financial institutions and investors that the current hedge accounting requirements do not adequately reflect how repricing risk is managed in practice.
- 10 When developing IFRS 9 *Financial Instruments*, the IASB decided not to address dynamic risk management (macro hedging) within the hedge accounting model because of the complexity of accounting for risk management undertaken across open portfolios of assets and liabilities. Consequently, as an interim measure, IFRS 9 permits entities to:
- (a) apply the hedge accounting requirements in IFRS 9;
 - (b) continue applying all hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement* (IFRS 9 paragraph 7.2.21); or
 - (c) apply IFRS 9 generally but continue applying the specific IAS 39 portfolio (macro) fair value hedge accounting requirements for interest rate risk (IFRS 9 paragraph 6.1.3).

- 11 To address limitations in existing hedge accounting requirements, the Exposure Draft proposes a voluntary RMA model that aims to allow entities to reflect risk management activities undertaken on a net basis across open portfolios and to defer gains and losses on designated derivatives so that they are recognised in profit or loss in the same periods as the repricing effects of the underlying portfolios.
- 12 Because the proposed RMA model is intended to replace the macro hedge accounting provisions in IAS 39, the IASB intends to withdraw IAS 39 upon finalisation of the proposed model.
- 13 The [Appendix](#) provides a high-level overview of how an entity would apply the RMA model.

Outreach activities

- 14 Staff focused outreach primarily on banks because the IASB developed the proposed model principally in response to challenges associated with managing repricing risk dynamically across open portfolios. The IASB observed that most entities undertaking this type of risk management are banks and that banks have been the main source of feedback on the challenges associated with macro hedge accounting (ED 339 paragraph BC7).
- 15 Staff held two roundtable discussions, with IASB staff participating in both discussions:
 - (a) On 1 May 2026, staff held an in-person roundtable in Melbourne. 23 stakeholders representing 11 organisations attended the event.
 - (b) On 3 September 2026, staff held a virtual roundtable. 20 stakeholders representing 12 organisations attended the event.
- 16 The table below provides a breakdown of participants by stakeholder category.

Stakeholder group	Roundtable participants
Financial Institutions	ANZ, CBA, Kiwibank, Macquarie, NAB, Westpac and Westpac NZ
Professional Services Firms	Deloitte, EY, KPMG and PwC
Professional Bodies	Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia
Regulator	Australian Prudential Regulation Authority (APRA)

- 17 CAANZ and CPA Australia has provided joint preliminary views via email, which is presented as Agenda Paper 5.3.
- 18 Additionally, staff received further informal feedback from three banks and APRA via email correspondence, supplementing the views expressed by those stakeholders during the roundtable discussions.

Level of engagement and overview of feedback from Australian stakeholders

- 19 Despite the outreach activities, it has been challenging to elicit substantive engagement on the RMA proposals. Banks are considering the proposals but many have limited capacity to undertake detailed analysis. Most banks have indicated that they do not have capacity to prepare submissions, particularly while completing their September year-end reporting. All banks who participated in the roundtable discussions commented that they do not have capacity or resources to participate in IASB field testing.
- 20 Based on feedback from Australian stakeholders, all but one Australian bank appears to apply the hedge accounting requirements in IFRS 9. This includes one bank that transitioned from IAS 39 hedge accounting to IFRS 9 hedge accounting for annual reporting periods beginning on or after 1 October

2025. The remaining bank has elected the accounting policy choice in IFRS 9 to continue applying the hedge accounting requirements in IAS 39.

- 21 Overall, Australian banks acknowledge shortcomings in current hedge accounting outcomes but have already developed processes to explain interest rate risk management outcomes to investors through non-GAAP measures in existing reporting. They are not convinced that the proposed RMA model would provide sufficient incremental benefits to justify significant systems, process and implementation costs. Additionally, most stakeholders raised concerns about the complexity of the proposed RMA model and the implications on prudential reporting.
- 22 Given the absence of formal submissions and field testing, staff have structured the draft comment letter (Agenda Paper 5.1) around the key themes identified through stakeholder outreach rather than responding to each question in the Exposure Draft.

Next steps

- 23 The comment period to IASB ED/2025/1 closes on 30 November 2026. Staff recommend a comment letter reflecting the Board's decisions from this meeting be finalised out-of-session by the Chair.

Questions for Board members

- Q1 Do Board members have any comments on the draft comment letter presented as Agenda Paper 5.1?
- Q2 Subject to any amendments agreed at this meeting, do Board members agree to delegate the Chair to finalise the comment letter out of session?

Appendix – Overview of how an entity would apply the proposed RMA model

- 24 This Appendix provides a high-level overview of how an entity would apply the proposed risk mitigation accounting (RMA) model.
- 25 RMA is a voluntary accounting model designed for entities that manage interest rate repricing risk on a net basis across open portfolios of assets and liabilities. The model seeks to better reflect the economic effects of dynamic risk management activities than existing hedge accounting requirements, which are primarily designed for individual hedging relationships or closed portfolios.
- 26 An entity applying the proposed RMA model would generally follow the steps outlined below.
- 27 **Step 1 - Determine whether the entity is eligible to apply RMA.** An entity would first determine whether its risk management activities qualify for the model. Under the Exposure Draft, an entity is permitted to apply the proposed RMA model if, and only if:
- (a) the entity's business activities give rise to the recognition and derecognition of financial instruments that expose it to repricing risk;
 - (b) the entity's risk management strategy specifies risk limits within which repricing risk, based on a mitigated rate, is to be mitigated; and
 - (c) the entity mitigates repricing risk arising from underlying portfolios on a net basis using derivatives in accordance with its risk management strategy (paragraph 7.1.4).
- 28 **Step 2 - Identify the underlying portfolios and determine the net repricing risk exposure (NRRE).** The entity would then identify the portfolios of financial instruments that give rise to repricing risk. The Exposure Draft proposes that only the following items are eligible for inclusion in underlying portfolios:
- (a) financial assets measured at amortised cost or fair value through other comprehensive income;
 - (b) financial liabilities measured at amortised cost; or
 - (c) future transactions that could result in the recognition or derecognition of financial instruments specified in (a) or (b). This includes expected reinvestments, refinancings, firm commitments and highly probable forecast transactions (paragraph 7.2.1).
- 29 These eligible items are aggregated to determine the entity's net repricing risk exposure (NRRE), being the net exposure to changes in benchmark interest rates that is managed on a net basis.
- 30 **Step 3 - Specify the risk mitigation objective.** Once the NRRE has been determined, management specifies a risk mitigation objective (RMO), which represents the amount of the net repricing risk exposure that the entity intends to mitigate. The RMO cannot exceed the amount of risk present in the NRRE and may change over time as the underlying exposures change.
- 31 **Step 4 - Designate derivatives used to mitigate the risk.** To achieve the RMO, the entity designates derivatives, such as interest rate swaps, that are used to mitigate the identified repricing risk exposure.
- 32 **Step 5 - Construct benchmark derivatives.** For measurement purposes, the entity constructs benchmark derivatives, which are hypothetical derivatives that replicate the timing and amount of repricing risk specified in the RMO. These benchmark derivatives are not actual transactions and are not recognised in the financial statements. Rather, they serve as a measurement tool to determine the extent to which designated derivatives mitigate the targeted exposure.
- 33 **Step 6 - Calculate the risk mitigation adjustment.** The entity then calculates a risk mitigation adjustment, which reflects the extent to which the designated derivatives have mitigated the exposure represented by the benchmark derivatives. Rather than recognising all gains and losses on

the designated derivatives immediately in profit or loss, a portion is recognised in the statement of financial position as the **risk mitigation adjustment**.²

- 34 **Step 7 - Recognise the accounting outcome.** Amounts accumulated in the risk mitigation adjustment are recognised in profit or loss in the same periods as the repricing effects of the underlying portfolios. This outcome is intended to reduce accounting mismatches and provide users with information that more faithfully reflects how an entity manages repricing risk on a net basis.
- 35 **Step 8 - Update the model as portfolios change.** As portfolios change due to unexpected events such as customer prepayments, changes in deposit balances, new business volumes or revised behavioural assumptions, the entity reassesses its NRRE. Any resulting changes are reflected through updates to risk mitigation objective, the benchmark derivatives and the risk mitigation adjustment. In this way, the accounting continues to reflect the entity's ongoing management of repricing risk even when actual outcomes differ from previous expectations.

2 The risk mitigation adjustment is calculated based on the lower of 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.