



Australian Government

**Australian Accounting
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Mr Sam Woods
Chair, International Accounting Standards Board
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(submitted via the IASB website)

XX November 2026

Dear Mr Woods,

Feedback on Exposure Draft IASB/ED/2025/1 *Risk Mitigation Accounting – Proposed amendments to IFRS 9 and IFRS 7*

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on the International Accounting Standards Board's (IASB's) Exposure Draft *Risk Mitigation Accounting – Proposed amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures*.

In formulating these comments, the AASB sought and considered the views of Australian stakeholders. The AASB held two roundtable discussions involving representatives of banks, audit firms, the Australian Prudential Regulation Authority (APRA), Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia. IASB staff participated in both discussions. The AASB also considered informal feedback obtained from three banks and APRA via email correspondence.

The key observations from the AASB's outreach were that:

- (a) Australian banks generally support the IASB's objective of exploring an accounting solution for repricing risk but currently have reservations about whether the proposed voluntary risk mitigation accounting (RMA) model would provide benefits that justify its implementation and ongoing costs;
- (b) certain aspects of the proposed model may not align sufficiently with how Australian banks manage interest rate risk, including under applicable prudential requirements; and
- (c) additional clarification and application guidance would assist stakeholders in understanding how the model could be applied operationally and consistently.

Based on the preliminary feedback received from the Australian banking sector, the AASB considers that further development of certain aspects of the proposed voluntary RMA model would assist stakeholders in assessing its practical applicability and potential benefits. Australian banks indicated that they are unlikely to adopt the RMA model without greater clarity about its operational requirements and a clearer understanding of how it would provide materially more useful information than their current financial reporting and related investor communications.

Accordingly, the AASB encourages the IASB to continue developing the proposals by:

- (a) further exploring whether the proposed model would provide decision-useful information that justifies its implementation and ongoing costs, including whether the model appropriately reflects entities' risk management practices;



- (b) considering refinements to the model, particularly in relation to the risk mitigation objective, repricing time bands, benchmark derivatives and the treatment of temporary or unexpected changes in net repricing risk exposure;
- (c) providing additional guidance regarding the recognition, measurement and release of the risk mitigation adjustment, including the operation of the excess assessment and any prudential consequences of presenting the adjustment in the statement of financial position;
- (d) evaluating the disclosure requirements for eligible entities that elect not to apply the RMA model; and
- (e) undertaking further outreach and field testing with banks, insurers, auditors, investors and prudential regulators as part of the continued development of the proposals.

Given the nature of the stakeholder feedback received, the Appendix sets out observations and areas for further consideration rather than responses to each individual question in the Exposure Draft. If you have any questions regarding this letter, please contact me or Patricia Au, International and Public Sector Technical Lead (pau@aasb.gov.au).

Yours sincerely,

Dr Keith Kendall
Chair – AASB

Draft

APPENDIX

This Appendix sets out the AASB's observations and areas for further consideration arising from its consultation with Australian stakeholders. It is structured around the main themes identified through that consultation rather than the individual questions in the Exposure Draft.

1. Australian banking sector reservations about adopting the voluntary RMA model

Stakeholders have informed the AASB that all but one Australian bank has transitioned to hedge accounting requirements in IFRS 9. This includes one major bank that transitioned from IAS 39 *Financial Instruments: Recognition and Measurement* hedge accounting to IFRS 9 hedge accounting for annual reporting periods beginning on or after 1 October 2025. The remaining bank, which continues to apply IAS 39 hedge accounting under the accounting policy choice, indicated that, if IAS 39 was withdrawn, it would expect to transition to the hedge accounting requirements in IFRS 9 rather than adopt the voluntary RMA model.

Banks acknowledged that existing hedge accounting requirements do not fully reflect how they manage repricing risk. However, they have established accounting processes and investor communication practices to explain the resulting effects, including volatility in profit or loss. These practices include non-GAAP measures or other adjustments reported in investor materials. Stakeholders considered that those processes and measures are well understood by management, risk teams and investors and are already embedded within their current prudential reporting processes.

Banks questioned whether applying the proposed RMA model would provide investors with materially more useful information to justify the implementation and ongoing costs. In particular, adopting the model would require significant changes to systems, processes and internal controls, and greater integration between finance and risk functions. Banks also questioned whether the model would reduce the need for existing investor communications or merely add another reporting framework.

The feedback did not indicate that Australian banks had rejected RMA in principle. Rather, banks were reluctant to commit resources before the proposals are more fully developed and their operational effects and reporting benefits are demonstrated. Accordingly, if the proposals were to proceed, Australian banks currently expect to take a wait-and-see approach, taking into account the experience of early adopters and the model's demonstrated benefits and costs before deciding whether to adopt it.

2. Alignment with risk management and prudential requirements

Australian banks are subject to prudential requirements for managing interest rate risk in the banking book (IRRBB). For major Australian banks that use APRA-approved internal models for regulatory capital purposes, IRRBB is treated as Pillar 1 risk and is therefore subject to minimum regulatory capital requirements.

Stakeholders acknowledged that financial reporting and prudential regulation have different objectives and did not suggest that RMA should replicate IRRBB. However, they considered that the accounting model should be sufficiently connected with entities' established risk management and prudential processes to avoid unnecessary duplication or the maintenance of multiple, potentially inconsistent models.

In particular, stakeholders observed that an Australian bank could be required to maintain separate regulatory, internal risk management and RMA models. Differences could arise in the scope of exposures, behavioural assumptions, risk measures and level of aggregation. Unless those differences are transparent, users may find it difficult to reconcile information reported under RMA with IRRBB information and other risk management information provided by the entity.

Some stakeholders expressed the view that information and assumptions used within a prudential framework addressing repricing risk could provide a reasonable starting point for RMA, provided this is consistent with the objective of financial reporting. These stakeholders emphasised that material differences from the prudential framework, including differences in scope, behavioural assumptions and risk measures, should be clearly explained. They considered that this approach could improve connectivity between the two frameworks and reduce unnecessary duplication while preserving the distinct objectives of financial reporting and prudential regulation.

Stakeholders also expressed concern about the prudential implications of presenting the risk mitigation adjustment as an asset or liability when the adjustment does not itself meet the definition of an asset or liability. Depending on its treatment under applicable prudential requirements, the risk mitigation adjustment could affect the calculation of regulatory capital, risk-weighted assets or bank levies. The AASB recommends that the IASB continue engaging with prudential authorities to understand whether the proposed risk mitigation adjustment could have unintended regulatory consequences before finalising the requirements.

3. Scope of eligible items and designated derivatives

Stakeholders expressed concerns that the proposed RMA model does not fully reflect how repricing risk is managed in practice. In particular, stakeholders identified potential differences between the instruments considered when managing repricing risk and those eligible for RMA. These included instruments measured at fair value through profit or loss, lease receivables and lease liabilities, and some capital instruments with contractual coupons. Stakeholders noted that excluding items that form part of an entity's risk management view could require arbitrary adjustments or make the RMA model difficult to apply.

Stakeholders also observed that asset and liability management systems may not distinguish between, for example, a derivative used to manage the repricing risk attributed to capital and a derivative used to manage a replicating portfolio for deposits. Requiring that distinction for accounting purposes could move the model away from how risk is managed and require entities to maintain parallel models or additional systems and controls.

The AASB encourages the IASB to consider whether the eligibility requirements appropriately capture the instruments considered in managing repricing risk and whether additional clarification would be helpful on identifying designated derivatives when derivatives are managed collectively. Any expansion of scope should avoid creating new accounting mismatches, particularly when an underlying item is measured at fair value through profit or loss.

4. Operational requirements and auditability

Risk mitigation objective and repricing time bands

Stakeholders questioned whether the risk mitigation objective provides sufficient information to justify the operational complexity associated with specifying and updating it. They also observed that limiting the risk mitigation objective by individual repricing time band could produce arbitrary outcomes when exposures and derivatives fall into adjacent time bands, even though the economic difference may be minimal.

Stakeholders suggested that additional explanation of the intended role of the risk mitigation objective would be helpful and questioned whether the same objective could be achieved in a less operationally demanding manner. They also noted that, if limits by repricing time band are retained, further clarification would be needed on how those limits should be applied when entities manage risk across adjacent time bands or use risk measures that do not rely on discrete time bands.

Stakeholders also indicated that additional clarification regarding the intended presentation of the risk mitigation adjustment and its release in profit or loss would also be helpful, including whether

amounts should be presented gross or net across applications of RMA and how the presentation relates to interest income and interest expense.

Construction and maintenance of benchmark derivatives

Stakeholders found the requirements for benchmark derivatives difficult to interpret. Questions included the level at which benchmark derivatives are constructed, how frequently new layers are added, how they relate to actual derivatives, and how benchmark derivatives should be adjusted when risk management activities or the underlying exposures change.

The roundtable discussions indicated that the IASB intends benchmark derivatives to be constructed on a layered basis, with new benchmark derivatives representing incremental changes rather than the entire position being reset. The AASB suggests that this intended operation could be articulated more explicitly in the requirements or supporting application guidance and illustrated using examples reflecting active portfolio management practices. The guidance should also explain when the terms of an actual derivative may inform the construction of a benchmark derivative and when differences must be reflected as misalignment.

Unexpected changes and release of the risk mitigation adjustment

Stakeholders supported the principle that amounts should not remain deferred when the related repricing risk is no longer expected to affect future periods. However, they found it unclear how an entity should identify the portion of the risk mitigation adjustment to release when exposures are reduced in an open portfolio, including through asset sales, accelerated customer repayments or other changes in portfolio composition.

Stakeholders indicated that additional guidance would be helpful regarding:

- the circumstances in which benchmark derivatives must be adjusted;
- the relationship between adjustments to benchmark derivatives and the excess assessment;
- whether and how proportionate or other systematic allocation methods may be used;
- the treatment of exposures that cease to exist but are replaced by economically similar exposures; and
- how an entity demonstrates that the remaining risk mitigation adjustment continues to represent repricing effects expected to arise in future periods.

Excess assessment

Stakeholders questioned whether the proposed point-in-time measurement of the present value of the net repricing risk exposure could identify an excess because of temporary market movements or the timing of risk mitigation activities, rather than because the deferred balance is no longer expected to be realised. This is particularly significant because an amount recognised in profit or loss under the proposals cannot subsequently be reversed.

The AASB encourages the IASB to provide additional guidance on the indicators that trigger a quantitative excess assessment, how temporary fluctuations may be distinguished from significant changes expected to persist, and how future transactions and expected portfolio replacement should be considered. The IASB may also wish to consider whether the prohibition on reversal remains appropriate if the measurement can capture temporary or unintended effects.

Auditability

Auditors observed that reliance on entity-specific risk management processes, behavioural assumptions and models could make it difficult to identify an objective benchmark against which compliance is assessed. Stakeholders also noted that applying RMA would require clear allocation of responsibilities across finance and risk functions and controls over the information transferred between those functions.

In light of these challenges, stakeholders suggested that the proposals may benefit from a minimum operational and evidential baseline while retaining sufficient flexibility to accommodate different risk management practices. Stakeholders noted that guidance addressing governance, documentation, model validation, data controls and evidential expectations could assist preparers and auditors in applying the model consistently.

5. Transition

Stakeholders questioned how benchmark derivatives should be measured on transition when existing derivatives already have non-zero fair values. Starting benchmark derivatives at zero could create accounting mismatches and volatility unrelated to the effectiveness of risk mitigation. Existing fair value hedge adjustments or cash flow hedge reserves may provide relevant information but were determined under different requirements and may not be directly transferable to RMA.

Stakeholders suggested that specific transition requirements that appropriately reflect the relationship between existing derivatives, existing hedge accounting balances and the repricing risk being managed at the transition date. They also considered that illustrative examples covering transition from the hedge accounting requirements in IFRS 9, the hedge accounting requirements in IAS 39 and the IAS 39 portfolio fair value hedge accounting requirements applied through IFRS 9 paragraph 6.1.3 could improve consistency in application.

6. Disclosures

Stakeholders observed that reporting-date information may not always faithfully depict dynamic activities that change throughout the period. They also raised concerns about disclosure overload and the disclosure of commercially sensitive information. Some stakeholders suggested that the IASB to continue evaluating whether each proposed disclosure is necessary to meet the stated disclosure objectives and whether period-based information, ranges or qualitative explanations might be more useful than reporting-date snapshots in some circumstances.

For entities eligible to apply RMA that elect not to do so, stakeholders suggested that the IASB clarify that the required explanation should focus on how repricing risk is managed and how the effects are reflected in the financial statements. Stakeholders also noted that entities could be permitted to cross-reference relevant information in prudential or risk reports when that information is available to users on the same terms and at the same time as the financial statements. Some stakeholders further suggested that any requirement to explain differences from prudential reporting could be confined to material differences necessary to understand the financial statements.

7. Insurance entities

The AASB received limited feedback from Australian insurance entities and therefore is not in a position to draw a broad conclusion about the model's applicability to that sector.

Stakeholders indicated that many Australian general insurers commonly measure relevant financial assets at fair value through profit or loss and recognise insurance-related effects in other comprehensive income. This accounting treatment may limit the relevance or applicability of the proposed RMA model to their risk management activities. The feedback received also indicated that Australian insurers currently apply the hedge accounting requirements in IFRS 9.

Stakeholders also raised questions about the interaction between RMA and IFRS 17, including the treatment of insurance liabilities, reinsurance contracts, the contractual service margin and amounts recognised in other comprehensive income. Those interactions may differ depending on an insurer's business model and its measurement and presentation choices under IFRS 17.

The AASB encourages the IASB to continue targeted outreach and field testing with life and general insurers as it develops the final requirements.