Australian Government
Australian Accounting Standards Board

Exposure Draft

Risk Mitigation Accounting

Proposed amendments to AASB 9 and AASB 7

December 2025

Comments due by 15 May 2026

ED 339

What is this consultation about?

This consultation is about a proposed new Risk Mitigation Accounting model designed to better represent in the financial statements how entities manage the repricing risk arising from their underlying portfolios of financial instruments. The model aims to provide greater transparency into how interest rate risk management affects financial performance and future cash flows in a dynamic environment. These activities have previously been referred to as macro hedging and dynamic risk management.

The consultation proposes amendments to AASB 9 *Financial Instruments* and AASB 7 *Financial Instruments: Disclosures*. It also proposes the withdrawal of AASB 139 *Financial Instruments: Recognition and Measurement* and its optional hedge accounting requirements.

Your feedback is important

Your feedback is crucial to our decision-making process as the AASB considers changing the requirements of Australian Accounting Standards.

Please provide comments to the AASB by 15 May 2026.

Comments can be provided by:

- Lodging a submission via the **AASB website**
- Emailing **standard@aasb.gov.au**

All comments will be published on our website unless it is in the public interest not to do so. If you have any objection to the release of your comments, include a request to withhold publication with your submission or a cover letter outlining the public interest grounds you believe apply.

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AASB Request for Comments

The Australian Accounting Standards Board's (AASB's) policy is to incorporate International Financial Reporting Standards (IFRS Accounting Standards) into Australian Accounting Standards. Accordingly, the AASB is inviting comments on:

(a) any of the proposals in the attached International Accounting Standards Board (IASB) Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and

(b) the 'AASB General Matters for Comment' listed below.

AASB General Matters for Comment

The AASB would particularly value comments on the following:

1 Are there any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals? Particularly, are there any issues relating to:

   (a) not-for-profit entities; or

   (b) public sector entities, including GAAP/GFS implications?

2 Do the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?

3 Overall, would the proposals result in financial statements that would be useful to users?

4 Are the proposals in the best interests of the Australian economy?

5 Unless already provided in response to general matters for comment 1 – 4 above, what are the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

IFRS Accounting

December 2025

Exposure Draft

IFRS® Accounting Standard

Risk Mitigation Accounting

Proposed amendments to IFRS 9 and IFRS 7

Comments to be received by 31 July 2026

International Accounting Standards Board

IASB/ED/2025/1

Exposure Draft

Risk Mitigation Accounting

Proposed amendments to IFRS 9 and IFRS 7

Comments to be received by 31 July 2026

The Exposure Draft *Risk Mitigation Accounting* is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by **31 July 2026** and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

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Introduction

Why is the IASB publishing this Exposure Draft?

IN1 Repricing risk is the risk that assets and liabilities will reprice at different times or in different amounts. For purposes of risk mitigation accounting, repricing risk is a type of interest rate risk that arises from differences in the timing and amount of financial instruments that reprice to benchmark interest rates. Many entities manage repricing risk on a net basis, by aggregating exposures from financial instruments, instead of assessing risk on the basis of individual instruments or groups of similar instruments. For example, many financial institutions manage repricing risk arising from their banking activities on a net basis.

IN2 An entity's exposure to repricing risk changes as new financial instruments are originated and existing financial instruments are settled. Many entities take a dynamic approach to managing the repricing risk arising from such open portfolios of financial instruments. This approach is generally referred to as 'dynamic risk management'.

IN3 Entities have long faced challenges in faithfully representing the economic effect of such dynamic and complex risk management activities in financial statements in a way that provides useful information to users of financial statements.

IN4 IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* introduced improved hedge accounting and disclosure requirements that enable entities to better reflect the economic effect of their risk management activities in their financial statements. However, the International Accounting Standards Board (IASB) noted when developing those requirements that dynamic risk management for open portfolios is a complex topic that warrants thorough research and feedback from interested parties. Accordingly, the IASB decided not to address accounting for dynamic risk management activities as part of the new hedge accounting model in IFRS 9. Instead, considering the complexity of the topic and feedback from stakeholders, the IASB decided to explore a more comprehensive solution to dynamic risk management separately.

IN5 The IASB decided that while the project on accounting for dynamic risk management was in progress, it would provide entities with an accounting policy choice between applying the hedge accounting requirements in IFRS 9 and continuing to apply the hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement*.

IN6 However, entities often find it difficult to account for their dynamic risk management activities under the hedge accounting requirements in IFRS 9 or IAS 39. These difficulties arise because these requirements are typically designed for closed portfolios and assume a stable designation between the hedged items and hedging instruments. To comply with the requirements, entities account for open-portfolio scenarios as a series of frequently changing

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closed-portfolio scenarios. This accounting treatment gives rise to complexities related to the tracking of hedged items, amortisation of hedge adjustments, and reclassification of gains or losses deferred in accumulated other comprehensive income. Entities also find it challenging to align such an accounting treatment with the way in which they view and manage repricing risk in open portfolios. Furthermore, the hedge accounting requirements impose restrictions on items that are eligible to be designated as hedged items. In feedback to the IASB, financial institutions emphasised the importance of this issue, noting that some of their risk exposures might only qualify for hedge accounting in an open-portfolio context (for example, non-interest-bearing demand deposits).

IN7 These constraints make it difficult for entities to faithfully represent the economic effect of their risk management activities in their financial statements. Entities therefore frequently resort to alternative reporting methods to communicate this effect to users of their financial statements.

IN8 For these reasons, the IASB started a project on Dynamic Risk Management (now Risk Mitigation Accounting) to develop a risk mitigation accounting model with requirements that entities can apply proportionately, reflecting the sophistication of their business and risk management activities.

IN9 The IASB decided that, at a minimum, such a model should:

(a) provide transparency about an entity's activities to manage interest rate risk and about how these activities affect the nature, timing and amount of future cash flows;

(b) ensure consistency between financial instruments for which an entity manages repricing risk on a net basis and financial instruments that are eligible for risk mitigation accounting;

(c) ensure risk mitigation accounting represents the dynamic nature of an entity's risk management activities; and

(d) ensure amounts recognised in an entity's financial statements represent the extent to which its risk management activities have successfully mitigated its exposure to repricing risk.

IN10 The IASB expects that the requirements for risk mitigation accounting proposed in this Exposure Draft will achieve these outcomes because the IASB developed the proposals through close collaboration with stakeholders. The proposed requirements are informed by how entities manage repricing risk in practice.

IN11 The feedback on this Exposure Draft will provide the IASB with the information necessary to determine whether the proposed requirements for risk mitigation accounting achieve the outcomes described in paragraph IN9.

IN12 As well as seeking feedback on the proposed requirements, the IASB will separately invite stakeholders to carry out fieldwork on the proposals.

IN13 The IASB will also consider whether the feedback on the Exposure Draft supports the IASB's intention to withdraw the requirements in IAS 39 for macro hedge accounting and the option in paragraph 6.1.3 of IFRS 9 to apply the requirements in IAS 39 to a portfolio hedge of interest rate risk.

IN14 Most of the entities that currently apply the macro hedge accounting requirements in IAS 39 are banking institutions. However, other types of entities, such as insurers, also undertake risk management activities relating to repricing risk. Therefore, the IASB is seeking specific feedback on how insurance entities manage interest rate risk and whether they could better represent the economic effect of their risk management activities in their financial statements by using risk mitigation accounting. The IASB will decide the next steps for insurance entities after considering this feedback.

Proposals in this Exposure Draft

IN15 The IASB proposes to permit an entity to apply risk mitigation accounting if, and only if, the entity's risk management activities have the characteristics specified in paragraph 7.1.4.

IN16 An entity applying risk mitigating accounting would be required to:

(a) document how the entity will apply risk mitigation accounting (in previous IASB discussions, 'risk mitigation accounting' was referred to as the 'dynamic risk management model') (paragraph 7.1.7);

(b) identify the underlying portfolios (previously 'underlying items') that expose the entity to repricing risk (paragraphs 7.2.1–7.2.4);

(c) determine the net repricing risk exposure (previously the 'current net open risk position') by aggregating the repricing risk arising from underlying portfolios based on expected repricing dates (paragraphs 7.2.5–7.2.10);

(d) identify designated derivatives held for the purpose of managing repricing risk (paragraphs 7.3.1–7.3.8);

(e) specify the risk mitigation objective (previously the 'risk mitigation intention') based on the net repricing risk exposure determined for each repricing time band (paragraphs 7.4.1–7.4.4);

(f) construct benchmark derivatives by replicating the timing and amount of repricing risk as specified in the risk mitigation objective (paragraphs 7.4.5–7.4.7); and

(g) recognise the risk mitigation adjustment (previously the 'DRM adjustment') by comparing the fair value changes in the designated derivatives with the fair value changes in the benchmark derivatives (paragraphs 7.4.8–7.4.14).

IN17 The IASB is not proposing any changes to the measurement of either the financial instruments for which repricing risk is mitigated or the derivatives used to mitigate the risk. Financial instruments included in underlying portfolios would still be measured at amortised cost or fair value through

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other comprehensive income and derivatives at fair value through profit or loss. However, risk mitigation accounting would require an entity to defer the recognition of the fair value changes in designated derivatives in profit or loss. The entity would recognise these changes in the same reporting periods during which the repricing differences arising from the financial instruments in the underlying portfolios affect profit or loss.

IN18 The IASB also proposes to amend IFRS 7 to add disclosure requirements applicable to:

(a) entities applying risk mitigation accounting; and

(b) entities choosing not to apply risk mitigation accounting, even though their business and risk management activities have the characteristics specified in the proposed paragraph 7.1.4 of IFRS 9.

Next steps

IN19 The IASB will consider the comments it receives on this Exposure Draft and decide on the appropriate next steps. The feedback and insights provided by stakeholders on this Exposure Draft will also help to inform the IASB's future decisions about whether:

(a) the remaining requirements in IAS 39 should be withdrawn;

(b) the risk management strategies and actions of entities that issue insurance contracts could also be reflected in financial statements using risk mitigation accounting; and

(c) the risk mitigation accounting model could be extended to other businesses that are also subject to dynamic risks (for example, those in the energy and commodities sectors).

Invitation to comment

The IASB invites comments on the proposals in this Exposure Draft, particularly on the questions set out below.

Comments are most helpful if they:

(a) respond to the questions as stated;

(b) indicate the specific paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in a particular proposal that is not clear or would be difficult to translate; and

(e) identify any alternative the IASB should consider, if applicable.

The IASB requests that comments be confined to the matters addressed in this Exposure Draft. Respondents need not answer all the questions in this invitation to comment.

Questions for respondents

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

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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.

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

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

The IASB also proposes that the entity determine the net repricing risk exposure in a manner that is consistent with how it makes risk management decisions, including with regard to:

(a) the basis on which the entity aggregates the repricing risk arising from underlying portfolios and determines the repricing time bands (based on expected repricing dates); and

(b) the measure the entity uses to quantify the repricing risk exposure in each repricing time band.

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

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

Question 4—Designated derivatives (Section 7.3)
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.

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.

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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.

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.

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

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?

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.

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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.

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.

Question relating to entities that issue insurance contracts

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

Deadline

The IASB will consider all comments received in writing by 31 July 2026.

How to comment

Please submit your comments electronically:

Online	https://www.ifrs.org/projects/open-for-comment/
By email	commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality, and we grant your request. We do not normally grant such requests unless they are supported by a good reason—for example, commercial confidentiality. Please see our website for details on this policy and on how we use your personal data.

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[Draft] Amendments to IFRS 9 *Financial Instruments*

To clearly set out the amendments to IFRS 9 *Financial Instruments*, the IASB proposes to relocate the effective date and transition requirements from Chapter 7 to Appendix C. Paragraphs previously numbered 7.X.X would be renumbered as CX.X. Except for their relocation and renumbering, these paragraphs remain unchanged, and they are not included in this Exposure Draft.

The requirements related to risk mitigation accounting would be included in Chapter 7 as set out in this section. For ease of reading, new text is not underlined. The IASB also proposes to remove from IFRS 9 all references to the option of applying hedge accounting in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, including fair value hedge accounting for a portfolio hedge of interest rate risk in accordance with paragraph 6.1.3. These changes are not shown in this section.

Chapter 7 Risk mitigation accounting

7.1 Objective and scope of risk mitigation accounting

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

7.1.2 When an entity manages repricing differences on the basis of individual instruments or groups of similar instruments, the entity manages its exposure to either the variability in fair value (for fixed-rate instruments) or cash flows (for variable-rate instruments). However, when an entity manages repricing risk on a net basis, the entity could manage its exposure to variability in both the cash flows from, and the fair value of, its financial instruments.

7.1.3 The objective of risk mitigation accounting is 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. Risk mitigation accounting also provides information about the purpose and effect of derivatives used to mitigate repricing risk.

7.1.4 To ensure that risk mitigation accounting provides useful information to users of financial statements, an entity is permitted to apply risk mitigation accounting 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.**

7.1.5 An entity is permitted but not required to apply risk mitigation accounting. However, an entity that chooses to apply risk mitigation accounting shall apply all the requirements in this chapter.

7.1.6 An entity shall apply risk mitigation accounting at the level at which the entity mitigates the repricing risk arising from underlying portfolios in accordance with its risk management strategy. Accordingly, an entity does not apply risk mitigation accounting on the basis of individual instruments or groups of similar instruments. An entity that manages repricing risk at the reporting entity level applies risk mitigation accounting on that basis. In contrast, an entity that manages repricing risk at a lower level within the reporting entity—for example, based on different mitigated rates—applies risk mitigation accounting for each subset of underlying portfolios that the entity aggregates to manage repricing risk on a net basis.

7.1.7 An entity shall formally document how it will apply the requirements in this chapter for each subset of underlying portfolios that is separately managed for repricing risk on a net basis. The entity shall explain in its formal documentation how it:

(a) manages repricing risk in accordance with its risk management strategy, including information about:

(i) the mitigated rate;

(ii) the *mitigated time horizon*; and

(iii) the risk limits within which repricing risk is to be mitigated (ie the thresholds for levels of repricing risk the entity is willing to accept);

(b) determines the repricing risk to be mitigated, including information about:

(i) the nature and characteristics of financial instruments included in the underlying portfolios;

(ii) the measures the entity uses to assess repricing risk arising from the underlying portfolios and to quantify the *net repricing risk exposure*;

(iii) the repricing time bands the entity uses to manage the repricing risk arising from the underlying portfolios;

(iv) the frequency with which the entity reassesses its net repricing risk exposure; and

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(v) the approaches the entity uses to determine the expected repricing of the underlying portfolios;

(c) specifies the *risk mitigation objective*;

(d) identifies the designated derivatives used to mitigate repricing risk; and

(e) captures the effects of unexpected changes in the net repricing risk exposure, including information about:

(i) how the entity identifies and adjusts the *benchmark derivatives* to reflect the effects of unexpected changes in its net repricing risk exposure;

(ii) how the entity assesses whether any effects of unexpected changes have not been captured in the measurement of the risk mitigation adjustment; and

(iii) how the entity measures the present value of the net repricing risk exposure at the reporting date.

7.2 Net repricing risk exposure

Underlying portfolios

7.2.1 For the purposes of applying risk mitigation accounting, an entity aggregates the repricing risk arising from underlying portfolios. Financial instruments are eligible to be included in the underlying portfolios only if they are:

(a) financial assets classified as subsequently measured at amortised cost or fair value through other comprehensive income (in accordance with paragraphs 4.1.2 or 4.1.2A);

(b) financial liabilities classified as subsequently measured at amortised cost (in accordance with paragraph 4.2.1); or

(c) future transactions that could result in the recognition or derecognition of financial instruments specified in (a) or (b), in accordance with paragraph 7.2.4.

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

7.2.3 Only financial instruments with a party external to the reporting entity are eligible to be included in the underlying portfolios. Financial instruments between entities in the same group can only be included in the underlying portfolios for the purposes of applying risk mitigation accounting in the individual or separate financial statements of those entities and not in the consolidated financial statements of the group.

7.2.4 Future transactions that could result in the recognition or derecognition of financial instruments that are eligible for inclusion in the underlying portfolios include (see paragraphs B7.2.4–B7.2.5):

(a) the expected reinvestment of financial assets eligible for inclusion according to paragraph 7.2.1(a);

(b) the expected refinancing of financial liabilities eligible for inclusion according to paragraph 7.2.1(b);

(c) firm commitments; and

(d) forecast transactions that are highly probable.

Determining the net repricing risk exposure

7.2.5 **An entity shall determine the net repricing risk exposure by aggregating the repricing risk arising from underlying portfolios based on expected repricing dates. The expected repricing date is the earlier of the dates on which financial instruments included in the underlying portfolios are expected to be settled or to reprice.**

7.2.6 **The net repricing risk exposure must be reliably measurable.**

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

7.2.8 In some cases, an entity could manage repricing risk using more than one mitigated rate. In such cases, the entity shall aggregate the repricing risk arising from the relevant underlying portfolios based on reasonable and supportable information about how underlying portfolios are managed on a net basis in relation to each mitigated rate. However, an entity shall not aggregate the same underlying portfolios to determine the net repricing risk exposures based on more than one mitigated rate.

7.2.9 **An entity shall determine the net repricing risk exposure in a manner that is consistent with how it makes risk management decisions, including with regard to:**

(a) **the basis on which the entity aggregates the repricing risk arising from underlying portfolios and determines the repricing time bands (based on expected repricing dates); and**

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(b) **the measure the entity uses to quantify the net repricing risk exposure in each repricing time band—for example, a cash flow- or fair value-based measure.**

7.2.10 An entity shall determine the net repricing risk exposure based on reasonable and supportable information about the changes in the underlying portfolios that could affect the net repricing risk exposure. The net repricing risk exposure shall be determined with sufficient frequency to ensure that changes in the underlying portfolios are reflected in a timely manner and that the net repricing risk exposure faithfully represents the entity's exposure to repricing risk.

7.3 Designated derivatives

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

7.3.2 A derivative is not eligible to be included as a designated derivative if:

(a) it is a net written option; or

(b) its fair value changes are dominated by the effect of risks unrelated to changes in the mitigated rate, such as credit risk.

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

7.3.4 Only derivatives with a party external to the reporting entity are eligible to be included as designated derivatives. Derivatives between entities in the same group can only be included as designated derivatives for the purposes of applying risk mitigation accounting in the individual or separate financial statements of those entities and not in the consolidated financial statements of the group.

7.3.5 Derivatives are eligible to be included as designated derivatives only if those derivatives are not designated as hedging instruments in a hedging relationship for interest rate risk in accordance with Chapter 6 of this Standard.

7.3.6 **Derivatives shall be included as designated derivatives only if, and to the extent that, they are held for the purpose of managing repricing risk on a net basis in accordance with the entity's risk management strategy.**

7.3.7 Derivatives shall be included as designated derivatives in their entirety, except when including a proportion of a derivative, such as 50 per cent of its nominal amount in accordance with the entity's risk management strategy. However, a derivative shall not be included for a part of its change in fair value that results from only a portion of the period during which the derivative remains outstanding.

7.3.8 **Once derivatives are included as designated derivatives, an entity shall exclude them from its application of risk mitigation accounting only if they are no longer held for the purpose of mitigating repricing risk on a net basis in accordance with the entity's risk management strategy.**

7.4 Applying risk mitigation accounting

Risk mitigation objective

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

7.4.2 The risk mitigation objective represents the extent to which an entity mitigates the net repricing risk exposure to ensure that the residual exposure to repricing risk is within the risk limits specified in the entity's risk management strategy.

7.4.3 In specifying the risk mitigation objective, an entity shall consider reasonable and supportable information about the amount of repricing risk the entity intends to mitigate for risk management purposes. The actions an entity undertakes to mitigate repricing risk through the use of designated derivatives provide evidence of the entity's risk mitigation objective.

7.4.4 The frequency with which an entity specifies a risk mitigation objective depends on the nature of the entity's net repricing risk exposure and the frequency with which the entity undertakes risk management activities. A risk mitigation objective specified in accordance with paragraph 7.4.1 shall remain effective until the entity specifies a new risk mitigation objective. Changes to the risk mitigation objective are applied prospectively and do not affect the application of risk mitigation accounting in the previous periods.

Benchmark derivatives

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

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

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

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Recognising and measuring the risk mitigation adjustment

7.4.8 **An entity shall recognise the risk mitigation adjustment in the statement of financial position, measured at the lower of the following (in absolute amounts):**

(a) **the cumulative gain or loss on the designated derivatives from the date the derivatives were designated; and**

(b) **the cumulative change in the fair value (present value) of the benchmark derivatives.**

7.4.9 **An entity shall recognise in profit or loss any remaining gain or loss on the designated derivatives that was not recognised as part of the risk mitigation adjustment in accordance with paragraph 7.4.8.**

7.4.10 **The amount accumulated as the risk mitigation adjustment shall be recognised in profit or loss in the same reporting periods during which the repricing differences arising from the financial instruments in the underlying portfolios affect profit or loss.**

Risk mitigation adjustment excess

7.4.11 **An entity shall assess at each reporting date whether there is an indication that the amount accumulated as the risk mitigation adjustment might not be realised in full over the mitigated time horizon. This situation would arise if there were unexpected changes in the net repricing risk exposure during the reporting period that have not been fully reflected in the adjustments to the benchmark derivatives in accordance with paragraphs 7.4.6–7.4.7.**

7.4.12 **If such an indication exists, the entity shall determine whether the amount accumulated as the risk mitigation adjustment exceeds the present value of the net repricing risk exposure as at the reporting date.**

7.4.13 The present value of the net repricing risk exposure represents the amount that would have been accumulated as the risk mitigation adjustment if the entity had fully mitigated the net repricing risk exposure as at the reporting date. The present value is calculated using the mitigated rate as the discount rate.

7.4.14 **If the amount accumulated as the risk mitigation adjustment at the reporting date exceeds the present value of the net repricing risk exposure (measured in accordance with paragraph 7.4.13), an entity shall reduce the amount accumulated as the risk mitigation adjustment by recognising the excess amount in profit or loss immediately. Any such excess amounts recognised in profit or loss shall not be reversed in future periods.**

7.5 Discontinuation of risk mitigation accounting

7.5.1 **An entity that chooses to apply risk mitigation accounting shall not discontinue risk mitigation accounting unless there is a change in the entity's risk management strategy. If such a change occurs, the entity shall discontinue risk mitigation accounting prospectively from the date the change is made.**

7.5.2 For the purpose of applying paragraph 7.5.1, a change in an entity's risk management strategy refers to a change in how the entity manages repricing risk. Such changes might include a change to the market interest rate identified as the mitigated rate or to the measures the entity uses to quantify the net repricing risk exposure. Changes in the entity's risk management activities in response to frequent changes in the entity's exposure to repricing risk do not constitute a change in the entity's risk management strategy. Therefore, an entity shall not discontinue risk mitigation accounting in response to changes of this type.

7.5.3 **An entity that discontinues risk mitigation accounting shall account for the amount accumulated as the risk mitigation adjustment in accordance with paragraphs 7.4.8–7.4.14 as follows:**

(a) **if the repricing differences from the financial instruments in the underlying portfolios are still expected to affect profit or loss, the entity shall recognise in profit or loss the amount accumulated as the risk mitigation adjustment:**

(i) **in accordance with paragraph 7.4.10; or**

(ii) **on another systematic and rational basis, which could include a straight-line basis; and**

(b) **if the repricing differences from the financial instruments in the underlying portfolios are no longer expected to affect profit or loss, the entity shall immediately recognise in profit or loss the amount accumulated as the risk mitigation adjustment.**

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[Draft] Amendments to Appendix A
Defined terms

Eight defined terms have been added. For ease of reading, new text is not underlined. The definitions of 'firm commitment' and 'forecast transaction' are included for ease of reference.

firm commitment	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.
forecast transaction	An uncommitted but anticipated future transaction.
benchmark derivatives	The theoretical derivatives an entity constructs to replicate the timing and amount of repricing risk as specified in the risk mitigation objective.
hedged exposure	The combined effect of the hedged item and hedging instrument designated in a hedging relationship in accordance with Chapter 6 of this Standard.
mitigated rate	A benchmark interest rate based on which an entity manages repricing risk in accordance with its risk management strategy.
mitigated time horizon	The rolling period over which an entity mitigates repricing risk based on the mitigated rate in accordance with the entity's risk management strategy.
net repricing risk exposure	The net exposure to repricing risk, based on the relevant mitigated rate, arising from underlying portfolios for which an entity manages repricing risk on a net basis.
repricing risk	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.
risk mitigation objective	An absolute amount of repricing risk an entity intends to mitigate in accordance with its risk management strategy.
underlying portfolios	Portfolios of financial assets, financial liabilities and future transactions that expose an entity to repricing risk and that are aggregated to determine the net repricing risk exposure based on the mitigated rate.

...

[Draft] Amendments to Appendix B Application Guidance

To clearly set out the amendments to IFRS 9 *Financial Instruments*, the IASB proposes to relocate the application guidance on the effective date and transition requirements in Chapter 7 of Appendix B to Chapter Z of Appendix C.

Paragraphs previously numbered B7.X.X would be renumbered as CZ.X.X. Except for their relocation and renumbering, these paragraphs would remain unchanged, and they are not included in this Exposure Draft.

Paragraphs B7.1.1–B7.5.5 and the related subheadings are added. For ease of reading, new text is not underlined.

Risk mitigation accounting (Chapter 7)

Objective and scope (Section 7.1)

B7.1.1 Some entities' exposure to repricing risk changes frequently because of frequent changes to the financial instruments in the underlying portfolios. Individual financial instruments affect an entity's exposure to repricing risk because they affect the amounts that reprice in particular periods.

B7.1.2 When an entity manages repricing risk on a net basis, its risk management strategy aims to manage the repricing differences across its underlying portfolios to achieve a dual objective of:

(a) reducing variability in cash flows—changes in interest rates affect an entity's interest income and interest expense, thereby affecting profit or loss (sometimes referred to as an 'earnings perspective'); and

(b) reducing variability in fair value—changes in interest rates affect the present value of an entity's underlying portfolios (sometimes referred to as an 'economic value perspective').

B7.1.3 An entity might not be able to mitigate variability in both cash flows and fair value to the same extent, and might use a combination of cash flow-based and fair value-based measures to measure and manage repricing risk. For example, the entity might decide to mitigate variability in cash flows from the underlying portfolios over the short term, while mitigating variability in fair value over the long term.

B7.1.4 An entity that aggregates the repricing differences from different types of financial instruments might naturally offset some of the repricing risk. For example, some financial assets might mitigate the repricing risk arising from some financial liabilities. However, to the extent that there remain differences in the timing or amount of repricing in a particular period, an entity typically uses interest rate derivatives to mitigate repricing risk.

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B7.1.5 If entities do not apply risk mitigation accounting, the use of derivatives to mitigate repricing risk often results in an accounting mismatch in profit or loss. This mismatch arises from differences in the timing of when an entity recognises in profit or loss the repricing effects arising from its underlying portfolios, compared to the gains or losses on the derivatives. Applying risk mitigation accounting, an entity defers the recognition of the gains or losses on designated derivatives in profit or loss to the same period during which the repricing differences arising from the financial instruments in the underlying portfolios affect profit or loss.

B7.1.6 An entity's risk management strategy is established at the highest level at which an entity determines how the entity manages repricing risk. Risk management strategies typically identify the risks to which the entity is exposed and set out how the entity responds to them. A risk management strategy is typically in place for an extended period and may include some flexibility to react to changes in circumstances that occur while that strategy is in place. This strategy is normally set out in a general document that is cascaded down through an entity through policies containing more specific guidelines.

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

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

B7.1.9 An entity's risk management activities could change frequently to respond to frequent changes in the entity's exposure to repricing risk. Therefore, the entity is not required to document the particular risk management activities it plans to undertake to manage repricing risk before undertaking those activities. Instead, the documentation is required to describe the processes and controls an entity will apply when undertaking risk management activities and must be updated to reflect any subsequent changes to these processes and controls.

B7.1.10 An entity is not required to apply risk mitigation accounting even if its risk management activities have all the characteristics specified in paragraph 7.1.4. In such a case, the entity shall provide the disclosures required by paragraph 33A of IFRS 7. However, if the entity chooses to apply risk mitigation accounting, it is required to comply with the requirements in this chapter and the related disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*.

Net repricing risk exposure (Section 7.2)

Underlying portfolios

B7.2.1 Financial instruments are eligible to be included in underlying portfolios only if they:

(a) affect an entity's exposure to repricing risk; and

(b) are subsequently measured in a way that creates an accounting mismatch in profit or loss because of differences between when the entity recognises:

(i) the effect of repricing differences arising from its financial instruments; and

(ii) the gains or losses on the derivatives the entity uses to manage repricing risk on a net basis.

B7.2.2 Most financial assets and financial liabilities eligible for inclusion in underlying portfolios in accordance with paragraph 7.2.1 affect an entity's repricing risk because the individual instrument has an explicit exposure to interest rate risk (for example, because the instrument has a contractually specified interest rate and maturity). However, the effect on an entity's exposure to repricing risk arising from some financial instruments could differ if instruments are assessed on a portfolio basis instead of on an individual instrument basis. For example, a financial liability that is contractually repayable on demand (such as a demand deposit) could be withdrawn at short notice if market interest rates change. Therefore, that financial liability would effectively behave like a variable-rate instrument. On an individual instrument basis, such a financial liability is not exposed to fair value changes when market interest rates change because it is measured at the amount repayable on demand. However, some deposits are not withdrawn, and customer balances are maintained for a long period. Therefore, on a portfolio basis, a portion of such deposits is deemed to represent fixed-rate financial liabilities and is eligible for inclusion in underlying portfolios.

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Future transactions

B7.2.3 In paragraph 7.2.1(c), the term 'future transactions' refers to transactions that are not yet recognised in the financial statements, but could result in the recognition or derecognition of financial assets or financial liabilities that affect an entity's exposure to repricing risk.

B7.2.4 In managing repricing risk, entities often assume that the cash flows from the settlement of financial instruments included in the underlying portfolios will be reinvested (in the case of financial assets) or refinanced (in the case of financial liabilities). Such future transactions are eligible for inclusion in underlying portfolios if—based on reasonable and supportable information—the reinvestment or refinancing is expected to occur. For the purposes of applying risk mitigation accounting, this expected reinvestment or refinancing represents a variable-rate exposure.

B7.2.5 Future transactions also include forecast transactions such as anticipated increases or decreases in the volume of financial assets or financial liabilities. Such forecast transactions do not meet the definition of a firm commitment because of the lack of a binding agreement. However, when considered on a portfolio basis, some of these forecast transactions will result in the recognition or derecognition of financial instruments that are eligible for inclusion in the underlying portfolios. For the purposes of applying risk mitigation accounting, forecast transactions are eligible for inclusion in the underlying portfolios only if an entity can estimate—using reasonable and supportable information—the volume of forecast transactions that are highly probable on a portfolio basis.

Hedged exposures

B7.2.6 Financial instruments in underlying portfolios might expose an entity to risks other than repricing risk. An entity applies risk mitigation accounting only to repricing risk. However, an entity is permitted to apply the hedge accounting requirements in Chapter 6 to hedge financial instruments included in underlying portfolios for risks other than repricing risk.

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

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

Determining the net repricing risk exposure

B7.2.9 Underlying portfolios include financial assets, financial liabilities and future transactions that reprice at different times and might reprice based on different benchmark rates. An entity determines the net repricing risk exposure by aggregating the effects of all financial instruments in the underlying portfolios based on the mitigated rate.

B7.2.10 The net repricing risk exposure represents the exposure to repricing risk arising from the underlying portfolios before an entity undertakes any risk management activities.

B7.2.11 To determine the net repricing risk exposure, an entity is required to consider the effects of all the contractual terms of the financial instruments included in underlying portfolios that could affect repricing risk—for example, prepayment or extension options. The entity might need to make assumptions about when financial instruments included in the underlying portfolios are expected to reprice. For some types of financial instruments, the expected repricing date might be determined through modelling historical customer behaviour. For example, an entity might model the level of demand deposits that it expects to be maintained despite changes in interest rates or the early repayment rates of particular financial assets. For other types of financial instruments, the repricing date might be determined based on the contractual maturity date—for example, financial instruments that do not permit early repayment. An entity is not required to use the same approach for all financial instruments included in underlying portfolios.

B7.2.12 When an entity aggregates repricing risk from underlying portfolios based on expected repricing dates, it uses repricing time bands to group financial instruments included in the underlying portfolios. The number and length of repricing time bands over the mitigated time horizon are required to be consistent with the time bands an entity uses for risk management purposes.

B7.2.13 The measure used to quantify the net repricing risk exposure in each repricing time band is required to be consistent with the measure used for risk management purposes. For example, an entity could use:

(a) a cash flow-based measure (such as a repricing maturity gap measure); or

(b) a fair value-based measure (such as a present value per basis point measure).

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

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(a) use a cash flow-based measure (such as the repricing maturity gap) for repricing time bands up to 12 or 24 months; and

(b) use a fair value-based measure for all other repricing time bands over the mitigated time horizon.

B7.2.15 The complexity of the methodologies and processes required for an entity to determine the net repricing risk exposure might vary between underlying portfolios. For some underlying portfolios, an entity might be able to estimate the amount of repricing risk in each repricing time band with little analysis or computation. For other underlying portfolios, an entity might need to carry out complex analysis and computation to determine the amount of repricing risk in each repricing time band.

B7.2.16 To determine the net repricing risk exposure, an entity is required to use reasonable and supportable information that is available at the time the entity makes the determination. Reasonable and supportable information includes information about the contractual and behavioural characteristics of the financial instruments included in the underlying portfolios. It also includes information about other factors that are relevant to estimating the amount of repricing risk in each repricing time band.

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

Applying risk mitigation accounting (Section 7.4)

Risk mitigation objective

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

B7.4.2 Because the risk mitigation objective is an absolute rather than a relative amount of repricing risk, the financial instruments in the underlying portfolios are not proportionately represented in the risk mitigation objective. For example, an entity might specify a risk mitigation objective of 60 units and its net repricing risk exposure might be 100 units. In that case, the entity would not specify a proportion of 60 per cent of each of the financial instruments or a particular subset of financial instruments in underlying portfolios that would have a total repricing risk of 60 units.

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

B7.4.4 The risk mitigation objective is specified for a period until an entity specifies a new risk mitigation objective—for example, when it undertakes further activities to mitigate repricing risk or when there is a change in the net repricing risk exposure. The period for which the risk mitigation objective is specified is not required to coincide with the entity's internal or external reporting periods.

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

B7.4.6 Although the risk mitigation objective is required to mitigate an entity's exposure to repricing risk to an amount that is within the risk limits specified in the entity's risk management strategy, the entity is not required to specify risk limits for each repricing time band. However, if risk limits are specified for each repricing time band, an entity is required to consider that fact when specifying the risk mitigation objective.

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Benchmark derivatives

B7.4.7 An entity shall construct benchmark derivatives that represent the timing and amount of repricing risk specified in the risk mitigation objective. As explained in paragraph B7.4.2, the risk mitigation objective is not a designation of identifiable financial instruments in the underlying portfolios. Therefore, the risk mitigation objective cannot be represented by direct reference to financial instruments in the underlying portfolios and is instead represented by benchmark derivatives.

B7.4.8 The risk mitigation objective is required to be evidenced by the amount of repricing risk an entity intends to mitigate by using designated derivatives. However, the benchmark derivatives can only include features that are present in both the designated derivatives and the repricing risk represented by the risk mitigation objective. Therefore, the benchmark derivatives cannot simply replicate all the terms of the designated derivatives. For example, an entity might determine repricing risk in the nine-year repricing time band to be 100 units and might intend to mitigate 70 units of the repricing risk through the use of designated derivatives with a contractual maturity of 10 years. In that case, the entity would construct the benchmark derivatives based on the 70 units of repricing risk in the nine-year period.

B7.4.9 Benchmark derivatives are an important element of risk mitigation accounting, not only as a representation of risk mitigation objectives over time, but also for the purposes of measuring the risk mitigation adjustment. Therefore, benchmark derivatives are constructed based on the mitigated rate and calibrated to have an initial fair value of zero at the date they are constructed.

B7.4.10 The benchmark derivatives are constructed to represent the risk mitigation objective as specified on a particular date. Therefore, unexpected changes in the underlying portfolios that occur after that date might reduce the net repricing risk exposure to below the risk mitigation objective. To ensure that the benchmark derivatives remain representative of the mitigated repricing risk, an entity is required to adjust the benchmark derivatives to reflect the effect of such unexpected changes using reasonable and supportable information.

B7.4.11 Unexpected changes in financial instruments included in underlying portfolios could occur if these instruments reprice earlier or later than expected—for example, prepayments on an entity's mortgage portfolio could be higher or lower than expected.

B7.4.12 However, an entity is not required to capture the effects of all unexpected changes in the net repricing risk exposure. An entity is required to adjust the benchmark derivatives only if unexpected changes reduce the net repricing risk exposure to below the risk mitigation objective in any repricing time band. For example, the risk mitigation objective might result in 70 units of repricing risk being mitigated in a particular repricing time band when the net repricing risk exposure allocated to that repricing time band was 100 units. In that case, the entity would need to adjust the benchmark derivatives

only if unexpected changes during the period reduced the net repricing risk exposure in that repricing time band to less than 70 units.

B7.4.13 An entity might take various approaches to adjusting the benchmark derivatives to capture the effects of unexpected changes. For example, an entity might use the characteristics and interest rate structures of financial instruments in the underlying portfolios to approximate the adjustment to the benchmark derivatives. The approach an entity takes will depend on the specificity with which the entity tracks its risk management activities over time. Regardless of the approach an entity applies, it must use reasonable and supportable information to estimate necessary adjustments to the benchmark derivatives.

B7.4.14 However, if reasonable and supportable information to estimate the effect of unexpected changes on the benchmark derivatives is not available without undue cost or effort, an entity shall deem the unexpected changes to have occurred at the time when the risk mitigation objective was last specified. For example, if an entity specifies a new risk mitigation objective on a monthly basis, the entity assumes that any unexpected changes during a month occurred at the beginning of that month.

Recognising and measuring the risk mitigation adjustment

B7.4.15 The risk mitigation adjustment represents the extent to which the designated derivatives have mitigated the repricing risk represented by the benchmark derivatives. The recognition and measurement of the risk mitigation adjustment, in accordance with paragraph 7.4.8, is based on the extent to which the gains or losses on the designated derivatives have been deferred to future periods over the mitigated time horizon in which the repricing differences arising from the financial instruments in the underlying portfolios affect profit or loss.

B7.4.16 In accordance with paragraph 7.4.4, an entity is required to specify a risk mitigation objective with the same frequency with which the entity undertakes risk management activities. However, an entity is not required to measure the risk mitigation adjustment with the same frequency. For example, an entity that specifies a new risk mitigation objective in accordance with paragraph 7.4.4 on a daily or weekly basis due to frequent changes in the underlying portfolios is not required to measure the risk mitigation adjustment on a daily or weekly basis.

B7.4.17 Paragraph 7.4.10 requires an entity to recognise the amount accumulated as the risk mitigation adjustment in profit or loss in the same reporting periods during which the repricing differences arising from financial instruments in the underlying portfolios affect profit or loss. The benchmark derivatives represent the timing and amount of the mitigated repricing risk. Therefore, the entity could use the accrual profiles of these benchmark derivatives as a proxy to determine the reporting periods during which the entity recognises the amount accumulated as a risk mitigation adjustment in profit or loss.

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Risk mitigation adjustment excess

B7.4.18 An entity is required to ensure that the risk mitigation adjustment remains a reasonable representation of the expected effects of repricing risk on the cash flows from, or fair value of, the underlying portfolios over the mitigated time horizon. Therefore, the entity is required to assess at each reporting date whether there is an indication that the risk mitigation adjustment might not be realised in full.

B7.4.19 The amount accumulated as the risk mitigation adjustment in the statement of financial position represents the effects of an entity mitigating the repricing risk arising from financial instruments in the underlying portfolios by using designated derivatives over the mitigated time horizon. When unexpected changes in the underlying portfolios occur, an entity applies paragraphs 7.4.6–7.4.7 to adjust the benchmark derivatives to reflect the effects of such changes. However, in some circumstances, an entity might not be able to adjust the benchmark derivatives to capture the effect of unexpected changes. In such circumstances, the entity would need to consider whether such changes could negatively affect its ability to realise the risk mitigation adjustment over the mitigated time horizon.

B7.4.20 An entity calculates the amount that the risk mitigation adjustment would have been if the entity fully mitigated the net repricing risk exposure at the reporting date. To do so, the entity needs to calculate the present value of the effects of repricing risk on the cash flows from, or fair value of, the underlying portfolios at the reporting date. Consequently, the present value of the net repricing risk exposure is not simply the present value of the financial instruments included in the underlying portfolios. For example, the present value of some financial instruments might be the outstanding principal amount. However, for the purpose of applying paragraph 7.4.12, an entity calculates the present value of the effects of risk mitigation. In other words, the entity deems repricing risk to have been mitigated in full.

B7.4.21 An entity could use various approaches—based on reasonable and supportable information that is available without undue cost or effort—to measure the present value of the net repricing risk exposure at the reporting date. For example, the entity could approximate the effects of risk mitigation on variable-rate instruments by reference to internal derivatives used to transfer repricing risk within the reporting entity or by using internal modelling methodologies, as described in paragraph B7.2.17.

B7.4.22 The amount accumulated as the risk mitigation adjustment could be either a debit or credit balance in the statement of financial position. Therefore, an entity recognising an excess amount of the risk mitigation adjustment in accordance with paragraph 7.4.14 could recognise either a gain or loss in profit or loss.

B7.4.23 After recognising the excess amount of the risk mitigation adjustment in profit or loss, an entity is required to make corresponding adjustments to the amounts to be recognised in profit or loss in future periods in accordance with paragraph 7.4.10. An entity is permitted to make such adjustments on a

systematic and rational basis, which could include a straight-line basis, over the mitigated time horizon.

Discontinuation of risk mitigation accounting (Section 7.5)

B7.5.1 An entity is required to apply judgement to determine whether there is a change in its risk management strategy, as described in paragraph B7.1.6, that requires the entity to discontinue risk mitigation accounting in accordance with paragraph 7.5.1.

B7.5.2 Changes to an entity's risk management strategy are expected to be infrequent and usually do not occur in isolation. Instead, they are likely to be the result of internal or external factors that are expected to affect the entity's business operations to an extent that necessitates a change in how the entity manages repricing risk. Generally, changes to an entity's business operations that necessitate a change in its risk management strategy are demonstrable to the entity's internal and external stakeholders.

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

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

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...continued

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

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

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

(a) changes to the risk mitigation objective;

(b) changes to the risk limits within which the net repricing risk exposure can vary;

(c) changes to the underlying portfolios that are used to determine the net repricing risk exposure; and

(d) changes to the designated derivatives.

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

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[Draft] Appendix C
Effective date and transition

To clearly set out the amendments to IFRS 9 *Financial Instruments*, the IASB proposes to relocate to a new Appendix C:

(a) the effective date and transition requirements originally in Chapter 7; and

(b) the application guidance on the effective date and transition requirements originally in Chapter 7 of Appendix B.

Paragraphs previously numbered 7.X.X have been renumbered as CX.X, and paragraphs previously numbered B7.X.X have been renumbered as CZX.X. Except for their relocation and renumbering, these paragraphs remain unchanged, and they are not included in this Exposure Draft.

Paragraphs C1.16–C1.17 and C2.54–C2.61 are added. For ease of reading, new text is not underlined.

This appendix is an integral part of the Standard.

C1 Effective date

...

C1.16 *Risk Mitigation Accounting*, issued in [Month, Year], amended IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*. An entity is permitted to apply the requirements from the beginning of an annual reporting period starting on or after [the date the requirements are issued].

C1.17 IAS 39 *Financial Instruments: Recognition and Measurement* has been withdrawn and an entity shall discontinue applying these requirements at the earlier of:

(a) the date the entity applies risk mitigation accounting in accordance with Chapter 7; and

(b) annual reporting periods beginning on or after [date to be determined].

C2 Transition

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Transition for *Risk Mitigation Accounting*

C2.54 An entity shall apply the requirements in Chapter 7 prospectively.

C2.55 The transition requirements in paragraphs C2.56–C2.61 apply when an entity first applies risk mitigation accounting, irrespective of whether the entity chooses to apply the requirements from:

(a) the beginning of the first annual reporting period starting on or after [the date the requirements are issued]; or

(b) the beginning of a subsequent annual reporting period.

C2.56 For the purposes of applying risk mitigation accounting, the transition requirements an entity is required to apply vary depending on whether the entity previously applied:

(a) the hedge accounting requirements in IAS 39; or

(b) the hedge accounting requirements in Chapter 6 of this Standard.

C2.57 An entity that previously applied the hedge accounting requirements in IAS 39 shall discontinue hedge accounting for the relevant hedging relationships. The entity shall apply paragraph 6.5.10 of this Standard to any fair value hedge adjustments and paragraph 6.5.12 of this Standard to any cash flow hedge reserves related to those discontinued hedging relationships. If, for the purpose of applying paragraph 6.5.10, amortising the fair value hedge adjustment using a recalculated effective interest rate is impracticable, the entity shall amortise the adjustment on a systematic and rational basis, which could include a straight-line basis. The hedge adjustment shall be fully amortised at the earlier of:

(a) the date when the remaining term of the discontinued portfolio hedge of interest rate risk would have expired; and

(b) the date when the hedged items are derecognised.

C2.58 An entity that previously applied the hedge accounting requirements in Chapter 6 of this Standard is permitted to discontinue hedge accounting for hedging relationships in which some or all of the hedged items are financial instruments that will be included in underlying portfolios for the purposes of applying risk mitigation accounting.

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

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

C2.61 In the reporting period in which an entity first applies these amendments, an entity is not required to disclose the quantitative information required by paragraph 28(f) of IAS 8 *Basis of Preparation of Financial Statements* or paragraph 178(f) of IFRS 19 *Subsidiaries without Public Accountability: Disclosures*.

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[Draft] Amendments to IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 30D–30P, 33A, 44QQ–44SS, the subheading before paragraph 30D and related subheadings are added. For ease of reading, new text is not underlined.

Significance of financial instruments for financial position and performance

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Other disclosures

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Risk mitigation accounting

30D An entity that applies risk mitigation accounting in accordance with Chapter 7 of IFRS 9 shall apply the presentation and disclosure requirements in paragraphs 30E–30P.

30E An entity shall present separately from other line items:

(a) the risk mitigation adjustment recognised either as part of the entity's assets (when it has a debit balance) or as part of its liabilities (when it has a credit balance) in the statement of financial position; and

(b) the amount of the risk mitigation adjustment recognised in profit or loss during the reporting period in the statement of comprehensive income.

30F The risk mitigation accounting disclosures an entity makes in accordance with paragraphs 30G–30P shall enable users of its financial statements to understand:

(a) how the entity manages repricing risk according to its risk management strategy;

(b) how the entity's risk management activities could affect the amount, timing and uncertainty of its future cash flows; and

(c) how applying risk mitigation accounting has affected the entity's statement of financial position and statement of comprehensive income.

30G To meet the objectives set out in paragraph 30F, an entity shall apply the principles in paragraph 41 of IFRS 18 *Presentation and Disclosure in Financial Statements* when determining the most appropriate way to aggregate or disaggregate information in its financial statements, including in the notes.

30H An entity shall provide the required disclosures in a single note or in a separate section in its financial statements. However, an entity is not required to duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

The risk management strategy

30I An entity shall explain its risk management strategy for managing repricing risk. This explanation should enable users of financial statements to understand:

(a) how the entity's exposure to repricing risk arises, including a description of the nature and characteristics of the underlying portfolios used to determine the net repricing risk exposure;

(b) how the entity manages repricing risk, including details about the mitigated rate and mitigated time horizon; and

(c) how the entity determines the net repricing risk exposure, including the level at which it is determined and the measures the entity uses to quantify repricing risk.

The amount, timing and uncertainty of future cash flows

30J An entity shall disclose qualitative and quantitative information that enables users of financial statements to evaluate the terms and conditions of designated derivatives and how they affect the amount, timing and uncertainty of the entity's future cash flows. To meet this requirement, an entity shall provide a breakdown that discloses:

(a) a profile of the timings of the nominal amounts of the designated derivatives (for example, by repricing time bands); and

(b) the average fixed interest rate of the designated derivatives.

30K An entity shall disclose a sensitivity analysis showing how the cash flows from, or the fair value of, the underlying portfolios might change as a result of reasonably possible changes in the mitigated rate.

The effects of risk mitigation accounting on financial position and performance

30L An entity shall disclose, in a tabular format, information about the financial instruments included in the underlying portfolios aggregated to determine the net repricing risk exposure, including:

(a) the carrying amounts of financial assets and financial liabilities, and the nominal amounts of future transactions;

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(b) the line items in the statement of financial position in which the financial instruments are included (or will be included in the case of future transactions);

(c) qualitative information about the inputs, assumptions and estimation techniques the entity used to aggregate the repricing risk arising from underlying portfolios by repricing time bands; and

(d) information about any hedged exposures.

30M An entity shall disclose, in a tabular format, information about designated derivatives, including:

(a) the carrying amount of the designated derivatives;

(b) the line items in the statement of financial position in which the designated derivatives are included;

(c) the change in fair value of the designated derivatives during the reporting period that is used in measuring the risk mitigation adjustment; and

(d) the notional amounts of the designated derivatives.

30N An entity shall disclose information that enables users of financial statements to understand how the risk mitigation adjustment has been measured, including:

(a) the entity's approach to capturing the effects of unexpected changes in the financial instruments included in underlying portfolios during the period;

(b) the gains or losses on the designated derivatives not recognised as part of the risk mitigation adjustment, both cumulatively and for the reporting period;

(c) the line items in the statement of comprehensive income in which the gains or losses described in (b) are included; and

(d) the expected profile for recognising the amount accumulated as the risk mitigation adjustment in profit or loss.

30O An entity shall disclose, in a tabular format, a reconciliation from the opening to the closing balance of the risk mitigation adjustment, showing separately:

(a) the gains or losses on the designated derivatives that have been recognised as part of the risk mitigation adjustment during the period;

(b) the amount of the risk mitigation adjustment that has been recognised in profit or loss during the reporting period; and

(c) the amount of any reduction in the risk mitigation adjustment due to an excess amount recognised in profit or loss in accordance with paragraph 7.4.14 of IFRS 9.

30P When an entity discloses the information required by paragraphs 30N–30O, it shall distinguish between:

(a) risk mitigation adjustments that relate to the continuing application of risk mitigation accounting; and

(b) risk mitigation adjustments that relate to risk mitigation accounting that has been discontinued.

Nature and extent of risks arising from financial instruments

...

Qualitative disclosures

...

33A In some cases, an entity whose business and risk management activities have the characteristics specified in paragraph 7.1.4 of IFRS 9 might choose not to apply risk mitigation accounting. In such cases, the entity shall provide a qualitative explanation to enable users of its financial statements to understand how the entity manages its exposure to repricing risk. This explanation shall include information about:

(a) how the entity's exposure to repricing risk arises;

(b) how the entity identifies, aggregates, monitors and manages its exposure to repricing risk; and

(c) how the entity reports its activities for managing repricing risk in the financial statements.

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Effective date and transition

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44QQ *Risk Mitigation Accounting*, issued in [Month, Year], added paragraphs 30D–30P, 33A and 44RR–44SS. An entity that chooses to apply the requirements for risk mitigation accounting in Chapter 7 of IFRS 9 shall apply paragraphs 30D–30P and 44RR–44SS at the same time it applies the requirements for risk mitigation accounting in Chapter 7 of IFRS 9. An entity that carries out risk management activities eligible for risk mitigation accounting (see paragraph 7.1.4 of IFRS 9) but chooses not to apply the requirements for risk mitigation accounting in Chapter 7 of IFRS 9 shall apply paragraph 33A from [date to be determined].

44RR In the reporting period in which an entity first applies these amendments, the entity shall disclose information about the effects of the transition to risk mitigation accounting as at the beginning of that reporting period, including:

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(a) information about the underlying portfolios, in a tabular format, such as:

(i) the carrying amounts of the financial assets and financial liabilities, or the nominal amounts of future transactions;

(ii) the line items in the statement of financial position in which the underlying portfolios are included; and

(iii) any hedged exposures included;

(b) information about the designated derivatives, in a tabular format, such as:

(i) the carrying amount of the designated derivatives;

(ii) the line item in the statement of financial position in which the designated derivatives are included; and

(iii) the nominal amounts of the designated derivatives; and

(c) information about the cumulative hedge adjustments—included in the carrying amount of previously designated hedged items or in the cash flow hedge reserve—that are related to hedging relationships discontinued for the purposes of applying risk mitigation accounting.

44SS If an entity revokes its previous designation of financial assets and financial liabilities as measured at fair value through profit or loss in accordance with paragraph C2.59 of IFRS 9, the entity shall disclose information about the effects of such a change, including:

(a) an explanation of the reason for revoking the previous designation; and

(b) the fair value of financial assets and financial liabilities whose designations have been revoked at the beginning of the reporting period in which the entity first applies the requirements in Chapter 7 of IFRS 9.

[Draft] Amendments to Appendix A—Defined terms

New references to terms have been added. These terms, which are defined in IFRS 9 *Financial Instruments*, are used in this Accounting Standard with the meaning specified in IFRS 9. Added text is underlined.

The following terms are defined in paragraph 11 of IAS 32, paragraph 9 of IAS 39, Appendix A of IFRS 9 or Appendix A of IFRS 13 and are used in this IFRS with the meaning specified in IAS 32, IAS 39, IFRS 9 and IFRS 13.

- amortised cost of a financial asset or financial liability
- benchmark derivatives
- contract asset
- ...
- gross carrying amount of a financial asset
- hedged exposure
- hedging instrument
- ...
- loss allowance
- mitigated rate
- mitigated time horizon
- net repricing risk exposure
- past due
- ...
- regular way purchase or sale
- repricing risk
- risk mitigation objective
- underlying portfolios

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[DRAFT] Amendments to other IFRS Accounting Standards

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph 39AL is added. Paragraph B6A and the subheading before paragraph B6A in Appendix B are also added. For ease of reading, new text is not underlined.

Effective date

...

39AL *Risk Mitigation Accounting*, which amended IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*, was issued in [Month, Year] and added paragraph B6A. An entity shall apply that amendment when it applies the requirements for risk mitigation accounting in Chapter 7 of IFRS 9.

...

Appendix B
Exceptions to the retrospective application of other IFRSs

This appendix is an integral part of the IFRS.

...

Risk mitigation accounting

B6A A first-time adopter shall apply the requirements in Chapter 7 of IFRS 9 *Financial Instruments* prospectively, if it chooses to apply risk mitigation accounting.

IFRS 18 *Presentation and Disclosure in Financial Statements*

Paragraphs 48 and 63 are amended. Paragraphs B70–B72 and B74 in Appendix B are amended. Paragraph C1A and the subheading before paragraph C1A in Appendix C are added. New text is underlined and deleted text is struck through.

Statement of profit or loss

...

Categories in the statement of profit or loss

48 Paragraphs 52–68 set out requirements for classifying income and expenses in the operating, investing, financing, income taxes and discontinued operations categories. In addition, paragraphs B65–B76 set out requirements on how foreign exchange differences, the gain or loss on the net monetary position, and gains and losses on derivatives, ~~and~~ designated hedging instruments and designated derivatives are classified in the categories.

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The financing category

63 The requirements in paragraphs 60–61 do not apply to gains and losses on derivatives, ~~and~~ designated hedging instruments or designated derivatives. An entity shall apply paragraphs B70–B76 to classify such gains and losses.

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Appendix B
Application guidance

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Classification of gains and losses on derivatives, ~~and~~ designated hedging instruments and designated derivatives

B70 Paragraph 47 requires an entity to classify income and expenses in categories in the statement of profit or loss. To apply paragraph 47, an entity shall classify gains and losses included in the statement of profit or loss on a financial instrument designated as a hedging instrument or included as a designated derivative applying IFRS 9 in the same category as the income and expenses affected by the risks the financial instrument is used to manage or mitigate. However, if doing so would require the grossing up of gains and losses, an entity shall classify all such gains and losses in the operating category (see paragraphs B74–B75).

B71 An entity shall classify gains and losses on an undesignated component of a designated hedging instrument or a portion not included as a designated derivative in the same category as gains and losses on the designated component. An entity shall classify ineffective portions of a gain or loss in the same category as the effective portions.

B72 An entity shall also apply the requirements in paragraph B70 to gains and losses on a derivative that is not designated as a hedging instrument or not included as a designated derivative applying IFRS 9, but is used to manage identified risks. However, if doing so would require the grossing up of gains or losses (see paragraphs B74–B75) or involve undue cost or effort, the entity shall instead classify all gains and losses on the derivative in the operating category.

...

B74 Paragraphs B70 and B72 prohibit the grossing up of gains and losses on financial instruments designated as hedging instruments or included as designated derivatives and derivatives not designated as hedging instruments or not included as designated derivatives. The grossing up of gains and losses might arise from situations in which:

(a) an entity uses such financial instruments to manage:

(i) the risks of a group of items with offsetting risk positions (see paragraph 6.6.1 of IFRS 9 for the criteria for a group of items to be an eligible hedged item); or

(ii) the repricing risk arising from underlying portfolios for risk mitigation accounting (see paragraph 7.2.1 of IFRS 9 for the eligibility criteria for underlying portfolios); and

(b) the risks managed affect line items in more than one category of the statement of profit or loss.

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Appendix C
Effective date and transition

This appendix is an integral part of the IFRS Accounting Standard.

...

Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*

C1A *Risk Mitigation Accounting*, which amended IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*, was issued in [Month, Year] and amended paragraphs 48 and 63 of this Standard and paragraphs B70–B72 and B74 of Appendix B. An entity shall apply those amendments when it applies the requirements for risk mitigation accounting in Chapter 7 of IFRS 9.

IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

Paragraph 4 is amended and paragraph A7 is added. New text is underlined and deleted text is struck through.

Objective

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4 Notwithstanding paragraphs 2–3:

(a) disclosure requirements in other IFRS Accounting Standards that remain applicable to an entity applying this Standard are specified in this Standard.

(b) if an entity applying this Standard applies IFRS 8 *Operating Segments*, IFRS 17 *Insurance Contracts* or IAS 33 *Earnings per Share*, it shall apply all the disclosure requirements in those Standards.

(ba) if an entity applying this Standard applies risk mitigation accounting in accordance with Chapter 7 of IFRS 9 *Financial Instruments*, it shall apply all related disclosure requirements in paragraphs 30D–30P of IFRS 7 *Financial Instruments: Disclosures*. If an entity applying this Standard carries out risk management activities applicable to risk mitigation accounting (see paragraph 7.1.4 of IFRS 9) but chooses not to apply risk mitigation accounting, it shall apply all related disclosure requirements in paragraph 33A of IFRS 7.

(c) a new or amended IFRS Accounting Standard may include disclosure requirements related to an entity's transition to that Standard. Any relief available to an entity applying this Standard from disclosure requirements about the entity's transition to that new or amended Standard will be set out in the new or amended IFRS Accounting Standard.

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Appendix A
Effective date and transition

This appendix is an integral part of the Standard.

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Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*

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A7 *Risk Mitigation Accounting*, which amended IFRS 9 and IFRS 7, was issued in [Month, Year] and added paragraph 4(ba) of this Standard. An entity shall apply that amendment when it applies the requirements for risk mitigation accounting in Chapter 7 of IFRS 9.

Approval by the International Accounting Standards Board of Exposure Draft *Risk Mitigation Accounting* published in December 2025

The Exposure Draft *Risk Mitigation Accounting* was approved for publication by all 12 members of the International Accounting Standards Board.

Andreas Barckow	Chair
Linda Mezon-Hutter	Vice-Chair
Nick Anderson	
Patrina Buchanan	
Tadeu Cendon	
Florian Esterer	
Zach Gast	
Hagit Keren	
Bruce Mackenzie	
Bertrand Perrin	
Rika Suzuki	
Robert Uhl	

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IFRS Foundation

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel **+44 (0) 20 7246 6410**
Email **customerservices@ifrs.org**

ifrs.org

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IFRS Accounting

December 2025

Exposure Draft

IFRS® Accounting Standard

Illustrative Examples and Implementation Guidance on Risk Mitigation Accounting

Proposed amendments to IFRS 9 and IFRS 7

Comments to be received by 31 July 2026

International Accounting Standards Board

IASB/ED/2025/1

Illustrative Examples and
Implementation Guidance on

Exposure Draft
Risk Mitigation Accounting

Proposed amendments to IFRS 9 and IFRS 7

Comments to be received by 31 July 2026

These Illustrative Examples and Implementation Guidance accompany the Exposure Draft IASB/ED/2025/1, which is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by **31 July 2026** and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

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[Draft] Amendments to the Illustrative Examples on IFRS 9 *Financial Instruments*

Paragraphs IE160–IE237 and the related sub-headings are added. For ease of reading, these paragraphs and sub-headings are not underlined. The paragraph references in square brackets refer to paragraphs proposed to be added to IFRS 9 *Financial Instruments* in the Exposure Draft *Risk Mitigation Accounting*. These examples accompany, but are not part of, the Exposure Draft.

Risk mitigation accounting

IE160 These examples illustrate ways an entity might apply some of the requirements in [Chapter 7 *Risk mitigation accounting* of IFRS 9] to particular aspects of an entity's repricing risk management on the basis of the facts presented in each example. The analysis in examples is not intended to represent the only manner in which the requirements could be applied and the examples are not intended to apply to only the specific industry illustrated. These examples do not necessarily illustrate all the requirements in the referenced paragraphs and they do not create additional requirements.

Example 20—Nature of business activities and risk management activities (Section 7.1)

IE161 To ensure that applying risk mitigation accounting provides useful information to users of financial statements, IFRS 9 permits an entity to apply risk mitigation accounting only if the entity's business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9].

Scenario 1—Bank providing financing and accepting deposits

IE162 Entity A is a bank that provides financing to, and accepts deposits from, customers. These activities result in the entity frequently originating financial assets and issuing financial liabilities, both of which include fixed-rate and variable-rate instruments referenced to various interest rate benchmarks. Because of these repricing differences, Entity A's exposure to repricing risk changes frequently.

IE163 Entity A's risk management strategy specifies that the entity manages repricing risk on a net basis by aggregating the repricing risk arising from its financial assets and financial liabilities. To manage repricing risk on a net basis, Entity A's risk management strategy requires the entity to measure its exposure to repricing risk based on the benchmark interest rate used for internal transfer pricing.

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IE164 Entity A's exposure to repricing risk changes frequently as financial instruments are settled and new financial instruments are added. Consequently, Entity A determines its net repricing risk exposure on a regular basis to determine the extent to which the entity needs to undertake further risk management activities.

IE165 Entity A uses interest rate derivatives to ensure that, over the mitigated time horizon, its residual exposure to repricing risk remains within the risk limits specified in its risk management strategy. To achieve this goal, Entity A uses several types of interest rate derivatives to mitigate the variability in both the cash flows from, and fair value of, its financial assets and financial liabilities.

IE166 Entity A concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9] and therefore that it is permitted to apply risk mitigation accounting.

Scenario 2—Manufacturing company

IE167 Entity B is a manufacturing company that operates internationally in several regions. To ensure it can cost-effectively fund its operations in these regions and maintain enough cash balances to pay its operating expenses, Entity B obtains long-term loans in regions where and, at times, when interest rates are low. The proceeds from these loans are then invested in various types of interest-bearing financial assets with various maturities in regions where interest rates are high. Because of the repricing differences between its financial assets and financial liabilities, Entity B is exposed to repricing risk.

IE168 Entity B's risk management strategy specifies that the entity manages repricing risk on the basis of each individual loan and investment. The strategy specifies separately the risk limits within which Entity B manages its interest expense and the risk limits within which the entity manages its interest income.

IE169 Accordingly, Entity B uses interest rate derivatives to manage separately its exposure to variability in the cash flows from, or fair value of, its financial assets and financial liabilities.

IE170 Entity B concludes that its business and risk management activities do not have the characteristics specified in [paragraph 7.1.4 of IFRS 9] and therefore that it is not permitted to apply risk mitigation accounting. Instead, Entity B chooses to apply the hedge accounting requirements in Chapter 6 *Hedge accounting* of IFRS 9 to represent the economic effect of its risk management activities in its financial statements.

Example 21—Underlying portfolios: Hedged exposures (Section 7.2)

Fact pattern

IE171 In accordance with its risk management strategy, Entity C manages repricing risk on a net basis by aggregating its exposure to repricing risk arising from specified financial assets and financial liabilities denominated in its functional currency. Entity C concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9]. The entity chooses to apply risk mitigation accounting.

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

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

Analysis

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

(a) the foreign currency financial liability as the hedged item;

(b) the cross-currency interest rate swap as the hedging instrument; and

(c) interest rate risk and foreign currency risk as the hedged risks.

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

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

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

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Example 22—Underlying portfolios: Financial assets measured at fair value through other comprehensive income (Section 7.2)

Fact pattern

IE178 In accordance with its risk management strategy, Entity D manages repricing risk on a net basis and concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9]. The entity chooses to apply risk mitigation accounting.

IE179 Entity D holds a portfolio of high-quality liquid bonds to meet its liquidity management requirements. Entity D measures these bonds at fair value through other comprehensive income.

IE180 To manage the interest rate risk arising from the high-quality liquid bonds, Entity D enters into interest rate swaps to transform the fixed-rate instruments into variable-rate instruments.

Analysis

IE181 In accordance with [paragraph 7.2.1 of IFRS 9], Entity D can include financial assets measured at fair value through other comprehensive income in its underlying portfolios if the financial assets expose Entity D to repricing risk. However, whether and how Entity D includes the repricing risk arising from the bonds when determining the net repricing risk exposure depends on how Entity D manages repricing risk.

IE182 If Entity D includes the repricing risk arising from its high-quality liquid bonds when determining its exposure to repricing risk for risk management purposes, Entity D could include the bonds in its underlying portfolios for the purposes of applying risk mitigation accounting. The interest rate swaps entered into as part of the entity's risk management activities are eligible to be included as designated derivatives. Applying risk mitigation accounting does not change the measurement of the financial assets. Therefore, the fair value gains or losses recognised in other comprehensive income are unaffected.

IE183 Alternatively, Entity D's risk management strategy might be to mitigate the variability in the fair value of the bonds or to mitigate any other risks associated with the bonds. Entity D can apply hedge accounting in accordance with Chapter 6 of IFRS 9 to designate the bond in a fair value hedge. If, in accordance with Entity D's risk management strategy, Entity D includes repricing risk arising from hedged exposures when determining its exposure to repricing risk, such hedged exposures are eligible to be included in its underlying portfolios.

Example 23—Underlying portfolios: Financial assets funded by own equity (Section 7.2)

Fact pattern

IE184 In accordance with its risk management strategy, Entity E manages repricing risk on a net basis by aggregating its exposure to repricing risk arising from its financial instruments over a three-year rolling time horizon. Entity E's risk management strategy specifies that the entity uses cash-flow-based measures to stabilise its net interest income over the mitigated time horizon. The entity chooses to apply risk mitigation accounting.

IE185 At the beginning of the period, Entity E has:

(a) fixed-rate term deposits from customers (financial liabilities) with a nominal amount of CU80 million and a maturity of two years;

(b) variable-rate central bank deposits (financial assets) with a nominal amount of CU50 million; and

(c) mortgage loans (financial assets) with a nominal amount of CU100 million and an interest rate that is fixed for two years.

IE186 Entity E expects to reinvest or refinance the cash flows arising from the settlement of financial assets and financial liabilities.

IE187 For the purposes of repricing risk management, Entity E assumes any excess financial assets to be funded by its own equity. In this case, Entity E assumes the CU70 million difference between the nominal amounts of financial assets and financial liabilities to be funded by Entity E's own equity.

	20X1	20X2	20X3
Financial assets	CU (million)	CU (million)	CU (million)
Mortgage loans—fixed-rate	100	100	—
Reinvestment of mortgage loans—variable-rate	—	—	100
Central bank deposits—variable-rate	50	50	50
Total	150	150	150
Financial liabilities			
Customer deposits—fixed-rate	(80)	(80)	—
Refinancing of customer deposits—variable-rate	—	—	(80)
Total	(80)	(80)	(80)
Excess financial assets funded by own equity	70	70	70

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IE188 In accordance with its risk management strategy, Entity E does not manage the repricing risk of all variable-rate items. Instead, Entity E relies on internal modelling (for example, equity modelling) to determine the extent to which the entity includes the variable-rate deposits when determining its exposure to repricing risk on a net basis.

Analysis

IE189 Because an entity's own equity is not eligible to be included in its underlying portfolios, Entity E does not include the CU70 million of equity in its underlying portfolios. However, [paragraph B7.2.17 of IFRS 9] does permit an entity to use internal equity modelling as a proxy in determining the amount of variable-rate financial instruments to include in its underlying portfolios for the purposes of calculating its net repricing risk exposure.

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

IE191 Entity E's underlying portfolios consist of:

(a) mortgage loans with a nominal amount of CU100 million and a rate that is fixed for two years;

(b) fixed-rate term deposits from customers with a nominal amount of CU80 million that mature after two years;

(c) variable-rate central bank deposits with a nominal amount of CU30 million that mature in three years;

(d) variable-rate central bank deposits with a nominal amount of CU10 million that mature in one year; and

(e) the expected reinvestment and refinancing relating to (a) and (b).

	20X1	20X2	20X3
Fixed-rate exposures	CU (million)	CU (million)	CU (million)
Mortgage loans (financial assets)	100	100	—
Customer deposits (financial liabilities)	(80)	(80)	—
Total	20	20	0
Variable-rate exposures			
Central bank deposits (financial assets)	40	30	30
Reinvestment of mortgage loans (financial assets)	—	—	100
Refinancing of customer deposits (financial liabilities)	—	—	(80)
Total	40	30	50

Example 24—Determining net repricing risk exposure (Section 7.2)

Fact pattern

IE192 In accordance with its risk management strategy, Entity F manages repricing risk arising from its financial instruments on a net basis and concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9]. Entity F chooses to apply risk mitigation accounting.

IE193 Entity F uses repricing maturity gap as the measure to quantify its exposure to repricing risk over a five-year rolling time horizon based on five year-long repricing time bands. At the beginning of 20X1, Entity F manages portfolios comprising:

(a) portfolio FA1—fixed-rate mortgages with a nominal amount of CU500 million. The contractual maturity of the loans is five years, but the mortgages permit prepayment after two years.

(b) portfolio FA2—forecast fixed-rate mortgages (also referred to as 'pipeline mortgages') with a nominal amount of CU100 million, expected to complete after one year.

(c) portfolio FL1—variable-rate funding related to the forecast pipeline mortgages in portfolio FA2.

(d) portfolio FL2—customer deposits that are repayable on demand with a nominal amount of CU300 million.

(e) portfolio FL3—five-year variable-rate inter-bank borrowings with a nominal amount of CU200 million.

IE194 Entity F expects to reinvest or refinance the cash flows arising from the settlement of financial assets and financial liabilities.

Analysis

IE195 To determine the net repricing risk exposure in accordance with [paragraph 7.2.5 of IFRS 9], Entity F aggregates the repricing risk arising from its underlying portfolios based on their expected repricing dates over the five-year period from 20X1–20X5.

IE196 Entity F considers reasonable and supportable information consistent with how it makes risk management decisions. To determine the expected repricing risk arising from its underlying portfolios, Entity F considers information about the financial instruments, such as their contractual and behavioural characteristics, expectations about current and future conditions, and other factors related to estimating the amount of repricing risk.

IE197 Based on Entity F's internal modelling methods and assumptions, it expects:

(a) for portfolio FA1—prepayments of CU20 million to arise in 20X3, CU30 million in 20X4 and CU50 million in 20X5.

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(b) for portfolio FA2—highly probable forecast pipeline fixed-rate mortgages with a nominal amount of CU50 million to arise from 20X2 onwards. The other CU50 million is not highly probable.

(c) for portfolio FL1—new highly probable financial liabilities that relate to the highly probable pipeline fixed-rate mortgages with a nominal amount of CU50 million to arise from 20X2 onwards.

(d) for portfolio FL2—one-third of customer deposits (CU100 million) to be withdrawn every year. This estimate is based on the sensitivity of the entity's deposit rates to changes in interest rates (sometimes referred to as 'deposit beta') observed over the past 10 years. Therefore, the entity allocates fixed-rate exposures of CU200 million to 20X1 and CU100 million to 20X2.

(e) for portfolio FL3—the borrowings of CU200 million to remain outstanding until contractual maturity.

IE198 Therefore, Entity F determines the net repricing risk exposure at the end of each year to be:

	20X1	20X2	20X3	20X4	20X5
Fixed-rate exposures	CU (million)	CU (million)	CU (million)	CU (million)	CU (million)
FA1	500	500	480	450	400
FA2	—	50	50	50	50
FL2	(200)	(100)	—	—	—
Total	300	450	530	500	450
Variable-rate exposures					
FA1—reinvestment[(a)]	—	—	20	50	100
FL1	—	(50)	(50)	(50)	(50)
FL2—refinancing[(b)]	(100)	(200)	(300)	(300)	(300)
FL3	(200)	(200)	(200)	(200)	(200)
Total	(300)	(450)	(530)	(500)	(450)

(a) Representing the reinvestment of the prepaid mortgages described in paragraph IE197(a).

(b) Representing the refinancing of withdrawn deposits described in paragraph IE197(d).

Example 25—Specifying the risk mitigation objective (Section 7.4)

Fact pattern

IE199 In accordance with its risk management strategy, Entity G manages repricing risk on a net basis by aggregating its exposure to repricing risk arising from its financial instruments and concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9]. Entity G chooses to apply risk mitigation accounting.

IE200 Entity G manages its repricing risk over a five-year rolling mitigated time horizon and quantifies its exposure to repricing risk using a repricing maturity gap measure based on five year-long repricing time bands.

IE201 At the beginning of 20X1, the financial instruments in Entity G's underlying portfolios comprise:

(a) portfolio FA1—five-year, non-prepayable fixed-rate mortgages with a nominal amount of CU1,000 million;

(b) portfolio FA2—fixed-rate financial assets with a contractual maturity of three years and a nominal amount of CU500 million;

(c) portfolio FA3—variable-rate financial assets with a contractual maturity of two years and a nominal amount of CU200 million;

(d) portfolio FL1—variable-rate financial liabilities with a contractual maturity of five years and a nominal amount of CU1,000 million;

(e) portfolio FL2—variable-rate financial liabilities with a contractual maturity of four years and a nominal amount of CU500 million; and

(f) portfolio FL3—non-interest-bearing customer deposits that are repayable on demand, with a nominal amount of CU200 million.

IE202 Based on its internal modelling methods, Entity G expects that CU100 million of customer deposits in portfolio FL3 will be withdrawn each year. Entity G expects to reinvest or refinance the cash flows arising from the settlement of the financial assets and financial liabilities.

IE203 At the beginning of 20X1, Entity G determines the net repricing risk exposure to be:

Net repricing risk exposure	20X1 CU (million)	20X2 CU (million)	20X3 CU (million)	20X4 CU (million)	20X5 CU (million)
Fixed-rate exposures					
FA1	1,000	1,000	1,000	1,000	1,000
FA2	500	500	500	—	—
FL3	(100)	—	—	—	—
Total	1,400	1,500	1,500	1,000	1,000
Variable-rate exposures					
FA3	200	200	—	—	—
FL1	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
FL2	(500)	(500)	(500)	(500)	—
FA2—reinvestment	—	—	—	500	500
FA3—reinvestment	—	—	200	200	200
FL2—refinancing	—	—	—	—	(500)
FL3—refinancing	(100)	(200)	(200)	(200)	(200)
Total	(1,400)	(1,500)	(1,500)	(1,000)	(1,000)

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IE204 To manage its exposure to repricing risk, Entity G enters into four interest rate swaps:

(a) swap one—a five-year pay-fixed receive-variable interest rate swap with a notional amount of CU1,000 million;

(b) swap two—a three-year pay-fixed receive-variable interest rate swap with a notional amount of CU600 million;

(c) swap three—a two-year receive-fixed pay-variable interest rate swap with a notional amount of CU300 million; and

(d) swap four—a one-year receive-fixed pay-variable interest rate swap with a notional amount of CU100 million.

IE205 Entity G determines the net effects of these designated derivatives to be:

Designated derivatives	20X1 CU (million)	20X2 CU (million)	20X3 CU (million)	20X4 CU (million)	20X5 CU (million)
Fixed-rate exposures					
Swap one	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Swap two	(600)	(600)	(600)	—	—
Swap three	300	300	—	—	—
Swap four	100	—	—	—	—
Total	(1,200)	(1,300)	(1,600)	(1,000)	(1,000)
Variable-rate exposures					
Swap one	1,000	1,000	1,000	1,000	1,000
Swap two	600	600	600	—	—
Swap three	(300)	(300)	—	—	—
Swap four	(100)	—	—	—	—
Total	1,200	1,300	1,600	1,000	1,000

Analysis

IE206 To specify its risk mitigation objective in accordance with [paragraphs 7.4.1–7.4.4 of IFRS 9], Entity G considers its net repricing risk exposure and the designated derivatives it uses to mitigate repricing risk.

Net repricing risk exposure	20X1 CU (million)	20X2 CU (million)	20X3 CU (million)	20X4 CU (million)	20X5 CU (million)
Fixed-rate exposures	1,400	1,500	1,500	1,000	1,000
Variable-rate exposures	(1,400)	(1,500)	(1,500)	(1,000)	(1,000)

continued...

...continued

Designated derivative	20X1	20X2	20X3	20X4	20X5
Fixed-rate exposures	(1,200)	(1,300)	(1,600)	(1,000)	(1,000)
Variable-rate exposures	1,200	1,300	1,600	1,000	1,000

IE207 Entity G specifies a risk mitigation objective that:

(a) is consistent with the amount of repricing risk it mitigates using designated derivatives; and

(b) does not exceed the amount of net repricing risk exposure in each repricing time band.

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

IE208 In repricing time bands 20X1 and 20X2, Entity G specifies the risk mitigation objective at an amount lower than the net repricing risk exposure because not all of the repricing risk in these time bands is mitigated through designated derivatives. However, in repricing time band 20X3, Entity G restricts its risk mitigation objective to its net repricing risk exposure in accordance with [paragraph 7.4.1 of the IFRS 9], despite entering into more designated derivatives. For repricing time bands 20X4 and 20X5, Entity G fully mitigates its net repricing risk exposure and therefore has the same amount of repricing risk in the risk mitigation objective, net repricing risk exposure and designated derivatives.

Example 26—Indication that risk mitigation adjustment might not be realised in full (Section 7.4)

Fact pattern

IE209 In accordance with its risk management strategy, Entity H manages repricing risk on a net basis by aggregating its exposure to repricing risk arising from its financial instruments and concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9]. Entity H chooses to apply risk mitigation accounting.

IE210 Entity H holds various portfolios of fixed-rate financial assets, which are funded by variable-rate financial liabilities.

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IE211 At the beginning of period one, Entity H decides to fully mitigate its repricing risk exposure and evidences this decision through the designated derivatives into which it enters. Entity H constructs benchmark derivatives to represent the timing and amount of the repricing risk specified in its risk mitigation objective. Both the benchmark derivatives and designated derivatives have a fair value of zero at this date.

IE212 Although market interest rates are highly volatile in period one, by the end of period one, benchmark interest rates have decreased by 20 basis points compared with the start of the period. This change leads to a CU4 million fair value loss from the designated derivatives and a CU4 million fair value gain from the benchmark derivatives.[1]

IE213 In accordance with the requirements in [paragraph 7.4.8 of IFRS 9], Entity H recognises the risk mitigation adjustment at CU4 million in the statement of financial position.

IE214 At the beginning of period two, Entity H expects the benchmark interest rate to decrease further due to changes in market conditions. No unexpected changes to Entity H's net repricing risk exposure occurred in period one and the entity enters into offsetting derivatives to reduce the extent to which it mitigates its repricing risk. Entity H specifies its risk mitigation objective and constructs a benchmark derivative accordingly.

IE215 However, the benchmark interest rates increase by 20 basis points in period two, effectively returning to the rates as at the beginning of period one. At the end of period two, the designated derivatives have an accumulated fair value loss of CU1.2 million—a CU4 million loss from period one and a CU2.8 million gain from period two.[2]

IE216 The cumulative change in the fair value of the benchmark derivatives at the end of period two is a gain of CU1.2 million. No unexpected changes occurred in period two in the net repricing risk exposure that would require Entity H to adjust the benchmark derivatives. As a result, the cumulative risk mitigation adjustment in the statement of financial position is a debit balance of CU1.2 million.

Analysis

IE217 The end of period two coincides with Entity H's reporting date. Paragraph [7.4.11 of IFRS 9] requires an entity to assess whether there is an indication that the accumulated risk mitigation adjustment recognised at the reporting date might not be realised in full over the mitigated time horizon.

IE218 Although the benchmark interest rate has effectively not changed during the reporting period (which covers both periods one and two), the rate movements combined with the change in Entity H's risk mitigation objective during the reporting period have resulted in Entity H recognising the accumulated risk

1 CU4 million is used to illustrate the fair value changes caused by the 20-basis-point decrease in the market interest rate during period one.

2 CU2.8 million is used to illustrate the fair value changes caused by the 20-basis-point increase in the market interest rate during period two.

mitigation adjustment at CU1.2 million. However, no unexpected changes occurred in the net repricing risk exposure during the reporting period that required the entity to adjust its benchmark derivatives.

IE219 Entity H determines that, despite the movements in the benchmark interest rates, there is no indication at the reporting date that the accumulated risk mitigation adjustment might not be realised in full over the mitigated time horizon. Therefore, Entity H need not apply the requirement in [paragraph 7.4.12 of IFRS 9] to measure whether the risk mitigation adjustment exceeds the present value of the net repricing risk exposure.

Example 27—Measuring present value of net repricing risk exposure (Section 7.4)

Fact pattern

IE220 In accordance with its risk management strategy, Entity J manages repricing risk on a net basis by aggregating its exposure to repricing risk arising from its financial instruments. Entity J concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9]. It chooses to apply risk mitigation accounting and has a mitigated time horizon of five years.

IE221 Entity J holds various portfolios of fixed-rate mortgages with nominal amounts of CU100 million, CU200 million and CU500 million for five-year, three-year and two-year maturities, respectively. These mortgages are funded by CU750 million of five-year variable-rate inter-bank borrowings and CU50 million of equity.

Net repricing risk exposure	**20X1** CU (million)	**20X2** CU (million)	**20X3** CU (million)	**20X4** CU (million)	**20X5** CU (million)
Fixed-rate exposures					
Five-year mortgage	100	100	100	100	100
Three-year mortgage	200	200	200	—	—
Two-year mortgage	500	500		—	—
Total	800	800	300	100	100
Variable-rate exposures					
Five-year liability	(750)	(750)	(750)	(750)	(750)
Reinvestment of three-year mortgage	—	—	—	200	200
Reinvestment of two-year mortgage	—	—	500	500	500
Total	(750)	(750)	(250)	(50)	(50)

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IE222 Market interest rates have been volatile over the past few years. Most of the mortgages were issued when market interest rates were much lower. Entity J now pays more interest on its inter-bank borrowings than it receives on its fixed-rate mortgages. The average fixed rate for these mortgages is 2.0%, but the current average rate on variable-rate inter-bank borrowings is 3.5%. However, Entity J had managed this risk by entering into pay-fixed receive-variable interest rate swaps before market interest rates increased and is now benefiting from a positive interest accrual on those swaps.

IE223 After a strategic review of its business operations, Entity J sells 50% of its five-year and three-year customer mortgage portfolios at the beginning of 20X1. The entity deposits the proceeds of CU130 million at the central bank, earning variable-rate interest income.[3] Entity J had included these mortgages in underlying portfolios to determine its net repricing risk exposure in previous periods. Therefore, it is likely Entity J has used the mortgages it sold to support some of its accumulated risk mitigation adjustment.

Analysis

IE224 In accordance with [paragraph 7.4.11 of IFRS 9], Entity J determines there is an indication the risk mitigation adjustment as at the reporting date would not be fully realised over the mitigated time horizon because:

(a) the sale of 50% of the entity's mortgage portfolios during the reporting period is a significant change in its underlying portfolios that the entity did not expect to occur; and

(b) the entity does not have the systems and processes necessary to adjust fully the benchmark derivatives for the effects of this unexpected change.

IE225 [Paragraph 7.4.12 of IFRS 9] requires Entity J to determine whether the risk mitigation adjustment exceeds the present value of the net repricing risk exposure at the reporting date, using an approach based on reasonable and supportable information.

IE226 Entity J uses an approach based on the present value of its fixed-rate financial instruments and constructs a replicating portfolio based on its variable-rate financial instruments. Entity J first calculates the present value of the remaining portfolios of fixed-rate customer mortgages, which have nominal amounts of CU50 million, CU100 million and CU500 million for five-year, three-year and two-year maturities, respectively.

3 The proceeds are lower than the nominal amount of the fixed-rate mortgages of CU150 million because the market interest rate has increased since the mortgages were issued. CU130 million is used for illustrative purposes, assuming a loss on sale of CU20 million.

IE227 Because Entity J has CU620 million variable-rate financial liabilities—CU750 million of 10-year variable-rate inter-bank borrowings and CU130 million of variable-rate central bank deposits—it makes another adjustment to represent the effect of repricing risk from variable-rate financial liabilities with a nominal amount of CU30 million.[4]

IE228 Entity J makes this adjustment by constructing a replicating portfolio based on an amortising profile of the excess variable-rate financial liabilities, in accordance with its risk management strategy. In this case, Entity J constructs five five-year derivatives, each with a CU6 million notional amount (equivalent to one-fifth of the variable-rate financial assets) and with staggered start dates corresponding to the beginning of each of the past five years, using the benchmark interest rate on those dates.

Net repricing risk exposure after sale	**20X1**	**20X2**	**20X3**	**20X4**	**20X5**
	CU (million)	CU (million)	CU (million)	CU (million)	CU (million)
Total fixed-rate exposures	650	650	150	50	50
Total variable-rate exposures	(620)	(620)	(120)	(20)	(20)
Fixed-rate exposures for present value calculation	650	650	150	50	50
Adjustment for variable-rate excess	(30)	(24)	(18)	(12)	(6)
Net repricing risk exposure used for present value calculation	620	626	132	38	44

IE229 The present value of the replicating portfolio plus the present value of fixed-rate exposures equals the present value of the net repricing risk exposure.

IE230 If the accumulated risk mitigation adjustment at the reporting date exceeds the present value of the net repricing risk exposure calculated as described in paragraphs IE224–IE229, Entity J recognises the excess amount immediately in profit or loss in accordance with [paragraph 7.4.14 of IFRS 9].

4 Entity J makes another adjustment for a nominal amount of CU30 million of variable financial liabilities in this case because it holds a total of CU620 million of variable-rate liabilities (CU750 million of liabilities and CU130 million of assets) and a total of CU650 million of fixed-rate financial assets (CU50 million, CU100 million and CU500 million of assets).

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Example 28—Recognition of risk mitigation adjustment in profit or loss after discontinuation of risk mitigation accounting (Section 7.5)

Fact pattern

IE231 In accordance with its risk management strategy, Entity K manages its repricing risk on a net basis by aggregating its exposure to repricing risk arising from its financial instruments. Entity K concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9]. Entity K chooses to apply risk mitigation accounting.

IE232 At the end of 20X1, the accumulated risk mitigation adjustment in Entity K's statement of financial position is a credit balance of CU28 million.[5]

IE233 To date, Entity K has managed its repricing risk using a cash flow-based measure. However, changes in the market in which Entity K operated over the past 12 months led to the entity's management deciding to manage repricing risk using a fair value-based measure going forward.

Analysis

IE234 The change in the measure Entity K uses to determine which risk management activities to undertake, and when, is a change in how Entity K manages its repricing risk. Entity K is therefore required by [paragraph 7.5.1 of IFRS 9] to stop applying risk mitigation accounting prospectively from the end of 20X1.

IE235 In accordance with the requirements in [paragraph 7.5.3 of IFRS 9], Entity K assesses whether the repricing risk arising from its underlying portfolios is still expected to affect profit or loss, consistent with its previous expectations.

IE236 Entity K concludes that the change in the market in which it operates did not affect its expectations about whether repricing risk arising from its underlying portfolios will affect profit or loss. Therefore, Entity K continues to recognise the accumulated risk mitigation adjustment in profit or loss on a systematic and rational basis, in accordance with [paragraph 7.5.3(a) of IFRS 9].

IE237 If no unexpected changes occurred in 20X1 in its underlying portfolios for which the benchmark derivatives have not been adjusted, Entity K could use the accrual profile of the benchmark derivatives to determine the amount of the risk mitigation adjustment to recognise in profit or loss. However, if the benchmark derivatives are no longer representative of the expected effects of repricing, Entity K could amortise the accumulated risk mitigation adjustment on a straight-line basis for the remaining four years of the mitigated time horizon. Such an approach would also meet the requirement in [paragraph 7.5.3(a) of IFRS 9].

5 The risk mitigation adjustment is calculated based on the requirements in [paragraphs 7.4.8–7.4.14 of IFRS 9], using CU28 million for the purpose of illustration.

[Draft] Amendments to Guidance on implementing IFRS 7 *Financial Instruments: Disclosures*

Paragraphs IG14A–IG14F and their related headings are added. For ease of reading, new text is not underlined. Existing headings have been provided in grey text for ease of reference. The paragraph references in square brackets refer to paragraphs proposed to be added by the Exposure Draft.

Significance of financial instruments for financial position and performance (paragraphs 7–30, B4 and B5)

...

Risk mitigation accounting (paragraphs 30D–30P)

The amount, timing and uncertainty of future cash flows

IG14A [Paragraph 30J of IFRS 7] requires an entity to disclose qualitative and quantitative information about the terms and conditions of designated derivatives and how they affect the amount, timing and uncertainty of the entity's future cash flows. The following example illustrates how the entity might disclose that information:

The Company held the following interest rate swaps as designated derivatives for the purposes of risk mitigation accounting, as at 31 December 20X2 and 31 December 20X1.

	Maturity analysis as at 31 December 20X2				**Maturity analysis as at 31 December 20X1**			
	Less than 1 year	1–2 years	2–5 years	More than 5 years	Less than 1 year	1–2 years	2–5 years	More than 5 years
Interest rate swaps								
- Pay-fixed receive-variable								
Nominal amount (CU million)	X	X	X	X	X	X	X	X
Average fixed rate	X%	X%	X%	X%	X%	X%	X%	X%
- Receive-fixed pay-variable								
Nominal amount (CU million)	X	X	X	X	X	X	X	X
Average fixed rate	X%	X%	X%	X%	X%	X%	X%	X%

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IG14B The following example illustrates how an entity might disclose the information required by [paragraph 30K of IFRS 7]:

Sensitivity analysis

The effects of reasonably possible changes in the mitigated rate could affect the cash flows from, and fair value of, underlying portfolios as follows (assuming no changes in how the expected cash flows are estimated):

	Fair value sensitivity		Cash flow sensitivity	
	31 December 20X2 CU million	31 December 20X1 CU million	31 December 20X2 CU million	31 December 20X1 CU million
Parallel shock up by xxx bps	(X)	(X)	X	X
Parallel shock down by xxx bps	X	X	(X)	(X)
Shock of curve steepening	X	X	X	X
Shock of curve flattening	(X)	(X)	(X)	(X)
Other shock scenarios (to specify)	X	X	X	X

The effects of risk mitigation accounting on financial position and performance

IG14C The following example illustrates how an entity might disclose the information required by [paragraph 30L of IFRS 7] in a table (for illustration purposes, comparative information is not shown):

The following financial instruments were included in underlying portfolios aggregated to determine the net repricing risk exposure as at 31 December 20X2:

	Nominal amount CU million	Carrying amount		Line item in the statement of financial position	Inputs, assumptions and estimation techniques
		Asset CU million	Liability CU million		
Central bank deposits	X	X	–	Balances at central banks	Contractual maturity
Unsecured loans	X	X	–	Loans and advances to customers	Expected maturity[a]
Customer demand deposits	X	–	(X)	Customer deposits	Expected maturity[b]

continued...

...continued

Future transaction —retail mortgage	X	n/a	–	n/a	Expected maturity[c]
Hedged exposures (see below)	n/a	–	(X)	Debt securities in issue	n/a

The hedged exposure relates to a fair value hedging relationship.
(The Company provides the information required by paragraphs 24A and 24B(a) of IFRS 7 regarding its fair value hedged exposure.)

Additional information relating to the inputs, assumptions and estimation techniques used to aggregate repricing risk by repricing time band:

a. Internal models are used to consider the effects of potential early repayments based on past experience and management forecasts.

b. Internal models are used to identify the portion of the demand deposits that are managed as fixed-rate exposures for a specified period, which is determined based on the deposit beta observed in the past 10 years.

c. Includes highly probable pipeline retail mortgages based on information relating to the current mortgage offers and acceptance, past experience of similar products and management forecasts.

IG14D The following example illustrates how an entity might disclose the information required by [paragraph 30M of IFRS 7] in a table (for illustration purposes, comparative information is not shown):

The amounts relating to interest rate swaps included as designated derivatives for the purposes of risk mitigation accounting as at 31 December 20X2 were as follows:

	Nominal amount	**Carrying amount**		**Line item in the statement of financial position**	**Change in fair value used as the basis for measuring the risk mitigation adjustment**
		Asset	**Liability**		
CU-denominated interest rate swaps (in CU million)	X	X	–	Derivative assets	(X)
FCU-denominated interest rate swaps (in CU million)	X	–	(X)	Derivative liabilities	X

IG14E The following examples illustrate how an entity might disclose the information required by [paragraph 30N of IFRS 7] in a table (for illustration purposes, comparative information is not shown):

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Risk mitigation accounting

	Continued CU million	Discontinued CU million	Total CU million	Cumulative CU million	Line item in the statement of profit or loss
Gains or losses on the designated derivatives not included in risk mitigation adjustment	(X)	(X)	(X)	(X)	Net trading income
Effects of unexpected changes[a]	(X)	(X)	(X)	(X)	Net trading income
Total misalignment for the year ending 31 December 20X2	**X**	**X**	**X**	**X**	

a. As at 31 December 20X2, the Company reassessed its net repricing risk exposure based on the latest expectations as at that time and identified significant changes in the repayment profile of a few portfolios of mortgage loans. The Company captured the effect of these unexpected changes by measuring the risk mitigation adjustment excess, which resulted in CU X million previously reported in risk mitigation adjustment being recognised in profit or loss as at 31 December 20X2.

As at 31 December 20X2, the Company had a total risk mitigation adjustment of CU X million that will be recognised in profit or loss in future reporting periods, providing protection against future interest variabilities.

	Maturity analysis as at 31 December 20X2				
	Less than 1 year	1–2 years	2–5 years	More than 5 years	Total
Risk mitigation adjustment—continued	X	X	X	X	X
Risk mitigation adjustment—discontinued	X	X	X	X	X
Total risk mitigation adjustment	**X**	**X**	**X**	**X**	**X**

IG14F The following example illustrates how an entity might disclose the information required by [paragraph 30O of IFRS 7] in a table (for illustration purposes, comparative information is not shown):

Risk mitigation adjustment

continued...

...continued

	Risk mitigation accounting —continued	**Risk mitigation accounting —discontinued**	**Total**
	Carrying amount CU million	**Carrying amount CU million**	**Carrying amount CU million**
1 January 20X1	X	X	X
Fair value gains or losses	X	n/a	X
Amounts recognised in profit or loss	(X)	(X)	(X)
Other adjustment —excess recognised	(X)	(X)	(X)
31 December 20X1	**X**	**X**	**X**

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IFRS Foundation

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel **+44 (0) 20 7246 6410**
Email **customerservices@ifrs.org**

ifrs.org

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IFRS Accounting

December 2025

Exposure Draft

IFRS® Accounting Standard

Basis for Conclusions on Risk Mitigation Accounting

Proposed amendments to IFRS 9 and IFRS 7

Comments to be received by 31 July 2026

International Accounting Standards Board

IASB/ED/2025/1

Basis for Conclusions on Exposure Draft
Risk Mitigation Accounting

Proposed amendments to IFRS 9 and IFRS 7

Comments to be received by 31 July 2026

This Basis for Conclusions accompanies the Exposure Draft IASB/ED/2025/1, which is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by **31 July 2026** and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

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Basis for Conclusions on Exposure Draft *Risk Mitigation Accounting*

This Basis for Conclusions accompanies, but is not part of, Exposure Draft Risk Mitigation Accounting. *It summarises the considerations of the International Accounting Standards Board (IASB) when developing the Exposure Draft. Individual IASB members gave greater weight to some factors than to others.*

Background

Why the IASB started the project

BC1 IFRS 9 *Financial Instruments* introduced hedge accounting requirements and disclosure requirements that enable entities to better reflect their risk management activities in their financial statements. However, these requirements do not cover portfolio (or macro) hedge accounting of open portfolios, which is the approach commonly used to manage repricing risk.[1]

BC2 For purposes of this project, repricing risk is the risk that cash flows from, and fair value of, financial instruments will vary due to differences in the timing or amount of their repricing to benchmark interest rates. Stakeholder feedback to the IASB suggested that users of financial statements need a better understanding of entities' repricing risk management activities. Therefore, the IASB decided to start a project that would explore a comprehensive accounting model for repricing risk management.

BC3 The IASB will consider the feedback on Exposure Draft *Risk Mitigation Accounting* to decide whether the proposed requirements should replace the current requirements in IAS 39 *Financial Instruments: Recognition and Measurement* for macro hedge accounting and whether IAS 39 could therefore be withdrawn.

History of the project

BC4 The IASB originally explored whether the requirements in IAS 39 related to fair value hedge accounting for a portfolio hedge of interest rate risk could be amended or included in IFRS 9 to better reflect risk management in the financial statements. However, stakeholder feedback suggested it was important for the IASB to address situations in which entities use a dynamic risk management strategy. Financial institutions also emphasised the need for requirements related to dynamic risk management because some of their risk exposures only qualify for hedge accounting in an open portfolio context (for example, financial liabilities contractually repayable on demand).

BC5 The IASB noted that dynamic risk management for open portfolios is a complex topic that warrants thorough research and feedback from interested parties. Therefore, the IASB decided not to address accounting for dynamic risk management activities as part of the new hedge accounting model in

1 In this document, 'risk management' refers to all activities undertaken by an entity when managing its repricing risk without any reference to the accounting implications. However, 'risk mitigation' refers to aspects that are required by the accounting model proposed in Exposure Draft *Risk Mitigation Accounting*.

IFRS 9. Instead, it decided to explore a more comprehensive solution to dynamic risk management in a separate project. The IASB decided to retain the current approach to macro hedge accounting under IAS 39 while the project was in process, so that entities would not be disadvantaged in the meantime.

BC6 In April 2014 the IASB published the Discussion Paper *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging* (Discussion Paper). This Discussion Paper set out a 'portfolio revaluation approach'—a possible way of accounting for an entity's dynamic interest rate risk management activities and reflecting those activities in the financial statements. However, after considering feedback to the Discussion Paper, the IASB decided not to pursue the portfolio revaluation approach, which resembled fair value hedge accounting.

BC7 Instead, the IASB decided to develop a new accounting model that does not follow the fair value or cash flow hedge accounting approaches, and to limit its application to repricing risk only.

BC8 The IASB acknowledged that repricing risk management activities are not exclusive to banks and may also be carried out by other types of entities. However, to increase the viability of the model, the IASB decided to focus on how banking institutions manage repricing risk, because prior consultations and feedback indicated that most entities that manage repricing risk are banks. Banks have also been the main source of feedback on challenges related to macro hedge accounting methods.

BC9 As set out in paragraph BC55 of the Basis for Conclusions on IFRS 17 *Insurance Contracts*, the IASB decided to consider the risk management activities of entities with insurance activities as part of the broader project on dynamic risk management. The IASB is therefore seeking specific feedback about insurers to assess whether these entities' risk management strategies and actions could also be reflected in financial statements using risk mitigation accounting.

BC10 The IASB also specifically decided to focus first on developing an accounting model for the mitigation of repricing interest rate risk. Once the IASB has determined the model to be operational, it will consider extending the model to other businesses that are also subject to dynamic risks (for example, those in the energy and commodities sectors) at a later stage.

Objective and scope of risk mitigation accounting

Objective of risk mitigation accounting

BC11 The IASB acknowledged that risk mitigation accounting would not achieve a complete reflection of all aspects of risk management in financial reporting. As paragraph 1.6 of the *Conceptual Framework for Financial Reporting* states, 'financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need'. Risk mitigation accounting aims to faithfully represent in the financial statements

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the effects of an entity's repricing risk management activities, rather than to capture all risk management activities. The IASB also decided that risk mitigation accounting would focus on representing an entity's risk management activities to manage its exposure to repricing risk rather than on governing or restricting risk management.

BC12 Throughout the development of the proposals in the Exposure Draft, most stakeholders supported this objective. However, some stakeholders were of the view that an equally important objective for risk mitigation accounting would be to eliminate the accounting mismatches that arise in profit or loss when financial assets and financial liabilities are measured at amortised cost and the derivatives used to manage the repricing risk are measured at fair value through profit or loss.

BC13 As explained in paragraph BCZ4.63 of IFRS 9, 'In the IASB's view, financial reporting is best served by providing entities with the opportunity to eliminate perceived accounting mismatches whenever that results in more relevant information'. Therefore, the IASB concluded that although applying risk mitigation accounting would result in the elimination of accounting mismatches, the primary objective of the proposed requirements is to faithfully reflect an entity's risk management activities in its financial statements to the extent possible.

Optional application of risk mitigation accounting

BC14 The IASB considered whether the application of risk mitigation accounting should be required or permitted. The IASB noted that requiring entities to apply risk mitigation accounting would mean defining and describing specific risk management strategies and activities that would trigger its application. Furthermore, because of the diversity of entities' business models, this approach would also have resulted in less transparency regarding their risk management activities.

BC15 With regard to optional application, the IASB acknowledged the importance of maintaining consistency between the hedge accounting requirements in IFRS 9, which are optional, and the risk mitigation accounting requirements. Like the hedge accounting requirements, the requirements for risk mitigation accounting are exceptions to the recognition and measurement requirements in IFRS Accounting Standards. Therefore, an entity is only permitted to apply risk mitigation accounting (or hedge accounting) if robust eligibility criteria are met.

BC16 The IASB also noted that risk mitigation accounting is inherently complex. The expertise required in risk modelling and the related investment in systems and processes could impose high costs on entities. Mandatory risk mitigation accounting requirements would mean that entities that lack the necessary expertise or processes would have to apply risk mitigation accounting. If risk mitigation accounting were optional, such entities could choose not to apply it and thereby avoid incurring the associated costs.

BC17 The IASB also considered whether improved comparability would be a potential benefit of requiring entities to apply risk mitigation accounting. However, the IASB concluded that the increased comparability under mandatory application would not be expected to outweigh the related costs.

BC18 Therefore, the IASB has concluded that the incremental benefits, if any, of requiring entities to apply risk mitigation accounting would not outweigh the implementation and ongoing application costs and accordingly proposes that risk mitigation accounting be optional.

Scope of risk mitigation accounting

BC19 The IASB observed that most entities manage repricing risk arising from financial assets and financial liabilities by aggregating the repricing risk from the financial instruments to determine the net exposure to repricing risk. They then use the net repricing risk exposure as the starting point for their risk management activities. If the net repricing risk exposure arising from the underlying portfolios of financial instruments changes frequently, an entity's risk management activities will also change frequently.

BC20 The extent to which changes in market interest rates affect the financial performance of an entity depends on its mix of fixed-rate and variable-rate financial assets and financial liabilities. Many entities carry out risk management activities (which commonly involve the use of derivatives) to achieve their risk management strategy.

BC21 To keep repricing risk within an entity's specified risk limits, the entity usually reduces variability:

(a) in earnings—by reducing variability in the difference between interest income and expense when the market interest rate changes, an entity in effect reduces exposure to variability in its earnings for a period;

(b) in economic value—by 'protecting' the fair value of its financial assets, financial liabilities and future transactions, an entity in effect reduces its exposure to changes in the economic value of these financial instruments when the benchmark interest rate changes;[2] or

(c) in both but during different time bands.

BC22 As part of their risk management strategy, some entities might focus on earnings in the short term and economic value in the long term.

BC23 Because risk management strategies and activities vary by entity, the IASB focused on common characteristics for which risk mitigation accounting would provide the most useful information to users of financial statements.

Business activities that give rise to repricing risk

BC24 In the IASB's view, for risk mitigation accounting to achieve its objective, it should be permitted for entities whose business activities result in financial instruments with frequent changes to their repricing risk exposure.

2 In the financial services sector, 'economic value' is sometimes referred to as 'economic value of equity'—a risk metric widely used by banks.

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Managing repricing risk on a net basis against the mitigated rate

BC25 The IASB acknowledged that for an entity to manage repricing risk on a net basis, it needs to identify a rate against which it aggregates and mitigates the repricing risk from different underlying portfolios in accordance with its risk management strategy (mitigated rate).

BC26 The mitigated rate is often a specific benchmark interest rate that an entity uses to aggregate and mitigate its repricing risk exposure. An entity might have specified more than one mitigated rate; for example, if it manages the repricing risk arising from underlying portfolios denominated in different currencies separately.

BC27 When an entity mitigates its repricing risk exposure, it effectively reduces the potential variability in cash flows from, or fair value of, the underlying portfolios attributable to the movements in the mitigated rate. The IASB considered whether to require the mitigated rate to be a separately identifiable and reliably measurable risk component of the financial instruments within the underlying portfolios. Such an approach would align with the requirement in paragraph 6.3.7(a) of IFRS 9, which relates to designation of an interest rate risk component as the hedged item. Although this requirement is well understood in practice, the IASB concluded that risk mitigation accounting does not have to be consistent with the current hedge accounting requirements.

BC28 Moreover, in the IASB's view, the mitigated rate used for risk mitigation accounting must be consistent with the actual benchmark interest rate considered for risk management purposes, in accordance with the objective of risk mitigation accounting. The IASB therefore concluded that it would not be appropriate to require the mitigated rate to be a separately identifiable risk component of the underlying portfolios, as in hedge accounting.

Systematic process for determining the net repricing risk exposure

BC29 The IASB noted that an entity would determine the net repricing risk exposure by aggregating the repricing risk exposure arising from portfolios of financial instruments. An entity determining its net repricing risk exposure in this way might transfer risk from individual business divisions to a central treasury function, based on its internal funding or transfer pricing mechanisms.

BC30 This systematic process for determining the net repricing risk exposure is the starting point for an entity's risk management activities. Some entities might use internal derivative positions or proxy internal loan or deposit positions between business divisions and the treasury department to replicate the repricing risk arising from the underlying portfolios originated or issued by those business units. Despite the varying contractual features of the financial instruments included in the underlying portfolios, for the purpose of repricing risk management, instruments are aggregated and fully fungible.

BC31 The IASB concluded that determining the net repricing risk exposure requires a more comprehensive approach than simply combining a few individual items or portfolios and managing them together. The latter approach would be more appropriately reflected by applying the hedge accounting requirements for a group of items (in accordance with paragraphs 6.6.1–6.6.6 of IFRS 9).

Nature of risk management activities

BC32 The IASB understood that entities might focus on various aspects of repricing risk when determining their risk management strategies, depending on their circumstances. When quantifying repricing risk, some entities might focus on changes in the cash flows, others might focus on changes in fair value and yet others might aim to achieve a balance by considering both. In the IASB's view, risk mitigation accounting could help to reflect the effects of an entity's risk management activities in all cases.

Levels at which risk mitigation accounting is applied

BC33 The IASB concluded that for risk mitigation accounting to achieve the objective stated in paragraph 7.1.3 of the Exposure Draft, it must be applied at the level at which repricing risk is managed. Risk mitigation accounting therefore differs from hedge accounting, which is applied at the level of the individual instrument or group(s) of instruments.

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

Formal documentation requirements

BC35 Risk mitigation accounting, like hedge accounting, involves exceptions to some of the recognition and measurement requirements in IFRS 9. Furthermore, the IASB concluded that because an entity chooses to apply risk mitigation accounting based on its risk management strategy, the entity should be required to provide formal documentation about how it applies risk mitigation accounting to avoid the use of hindsight or practices to achieve an arbitrary accounting outcome.

BC36 However, the IASB decided that because of the frequently changing nature of many entities' risk management activities, formal documentation should focus on explaining the methods and approaches used by the entity to mitigate repricing risk and apply risk mitigation accounting, rather than specifying amounts of repricing risk to be mitigated.

BC37 Formal documentation would provide evidence of how an entity manages repricing risk, including how it identifies and mitigates the repricing risk, defines its risk mitigation objective and captures the effects of unexpected changes in the net repricing risk exposure. The documentation would also provide evidence that the entity is eligible to apply risk mitigation accounting.

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Net repricing risk exposure

Underlying portfolios

BC38 The IASB acknowledged the importance of an entity clearly identifying its underlying portfolios. For the purpose of applying risk mitigation accounting, an entity's exposure to repricing risk is referred to as the net repricing risk exposure, and the entity is required to include all underlying portfolios that it manages for repricing risk on a net basis.

BC39 The IASB considered whether setting eligibility criteria for the financial instruments to be included in the underlying portfolios could create a tension between risk mitigation accounting and the entity's risk management activities. However, the IASB concluded that doing so would be necessary to ensure that risk mitigation accounting is applied only if:

(a) financial instruments affect an entity's exposure to repricing risk; and

(b) the use of derivatives to mitigate repricing risk results in an accounting mismatch in profit or loss.

Financial assets and financial liabilities measured at amortised cost

BC40 The IASB concluded that financial assets and financial liabilities measured at amortised cost affect an entity's exposure to repricing risk because changes in market interest rates give rise to variability in either the instrument's cash flows or fair value. The IASB also decided that these financial instruments represent the majority of instruments to which entities currently apply hedge accounting to hedge interest rate risk. Furthermore, if risk mitigation accounting is not applied, using derivatives to mitigate the repricing risk arising from these financial instruments will result in accounting mismatches in profit or loss.

BC41 The IASB acknowledged that some financial assets or financial liabilities only affect an entity's exposure to repricing risk if assessed on a portfolio basis and not on an individual basis. The example most often raised by stakeholders is financial liabilities that are repayable on demand, such as demand deposits. IFRS 13 *Fair Value Measurement* states that the fair value measurement of a financial liability with a demand feature cannot be less than the present value of the amount that is payable on demand. Consequently, for accounting purposes, financial liabilities that are repayable on demand are measured at the nominal or demand amount, because they can be withdrawn immediately.

BC42 However, the IASB observed that 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. The nominal amount and tenor of these demand liabilities are typically affected by various factors, including macroeconomic factors and the expected behaviour of existing and new holders. Because of this customer behaviour, 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.

BC43 The IASB decided that determining the effect financial instruments have on an entity's exposure to repricing risk on a portfolio basis is consistent with managing repricing risk on a net basis. Therefore, financial instruments that affect an entity's exposure to repricing risk only when assessed on a portfolio basis are eligible for inclusion in underlying portfolios.

Financial assets measured at fair value through other comprehensive income

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

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

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

(a) risk mitigation accounting does not affect the measurement of the underlying portfolios. Therefore, the risk mitigation adjustment would not lead to potential double-counting of the fair value changes of the underlying portfolios.

(b) the application of risk mitigation accounting would eliminate the accounting mismatches in profit or loss in much the same way as it does when applied to financial instruments measured at amortised cost. However, a mismatch in other comprehensive income might remain.

Financial instruments measured at fair value through profit or loss

BC47 The IASB also considered whether financial assets or financial liabilities measured at fair value through profit or loss should be eligible for inclusion in underlying portfolios for the purpose of determining the net repricing risk exposure. Some financial instruments that are measured at fair value through profit or loss could affect an entity's exposure to repricing risk like those measured at amortised cost—for example, financial assets that do not have

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contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Equity instruments

BC49 Some equity instruments have debt-like features similar to financial liabilities—for example, instruments with discretionary contractual interest or coupon rates. For risk management purposes, entities often include these equity instruments when determining their exposure to repricing risk. If derivatives are used to mitigate the resulting repricing risk, an accounting mismatch in profit or loss would arise because the discretionary interest payments are recognised in equity.

BC50 However, the IASB decided that, despite the effect equity instruments might have on an entity's exposure to repricing risk, they are not eligible for inclusion in underlying portfolios because the interest or coupon payments recognised in equity would not affect profit or loss at any time. Therefore, applying risk mitigation accounting would not eliminate or reduce the accounting mismatch resulting from the measurement of derivatives through profit or loss.

Future transactions

BC51 Entities that manage repricing risk on a net basis commonly also consider the exposure to repricing risk associated with future transactions that are expected to occur during the mitigated time horizon. Future transactions could affect an entity's exposure to repricing risk in various ways, and the effect of repricing is included to the extent that an entity can reliably identify, measure and manage the risk.

BC52 The IASB noted that future transactions include both committed (firm commitments) and uncommitted (forecast) future transactions. As defined in Appendix A to IFRS 9, firm commitments (for example, loan commitments) are binding agreements that specify the interest rate (price) related to future transactions. Such transactions are by definition highly probable to occur and therefore the effect they would have on an entity's exposure to repricing risk can be determined in the same way as for recognised financial assets and financial liabilities. The IASB therefore decided that such future transactions are eligible for inclusion in underlying portfolios.

BC53 However, if future transactions are anticipated but not yet committed, there is greater uncertainty about how such transactions could affect an entity's exposure to repricing risk. Stakeholders said, because of the dynamic nature of their exposure to repricing risk, they expect that some financial

instruments will be reinvested or refinanced when they are settled. Because these future transactions have not yet been contractually agreed, entities treat such expected reinvestments or refinancing as variable-rate exposures.

BC54 The IASB was of the view that this assumption is equivalent to assuming that the cash receipts from the repayment of financial assets will be invested, or the cash required to settle financial liabilities will be borrowed, as variable-rate instruments. The IASB also noted that if an entity is able to reinvest or refinance financial instruments included in underlying portfolios as variable-rate instruments, the entity should be able to reliably determine the effect of the reinvestment or refinancing on its exposure to repricing risk. The IASB therefore decided not to require that such transactions must be highly probable to be eligible for inclusion in underlying portfolios. The IASB therefore decided that future transactions that represent the reinvestment or refinancing of financial instruments within underlying portfolios are eligible for inclusion in underlying portfolios if an entity expects such transactions to occur based on reasonable and supportable information.

BC55 In contrast, the IASB noted that there is significant uncertainty associated with uncommitted future transactions (forecast transactions) that are expected to affect an entity's exposure to repricing risk as fixed-rate instruments. The IASB acknowledged that the effect of such future transactions on the exposure to repricing risk is determined on a portfolio basis, which is more reliable than assessment on an individual-instrument basis. However, under the hedge accounting requirements in IFRS 9, to qualify as a hedged item, a forecast transaction must be highly probable to occur. The IASB therefore decided to require that forecast transactions be highly probable to be eligible for inclusion in underlying portfolios.

Hedged exposures

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

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

BC58 Stakeholders explained that they commonly raise funding or originate loans in currencies other than their functional currencies due to lack of market liquidity in their functional currencies. However, for risk management purposes, these financial assets or financial liabilities denominated in foreign currencies are not necessarily assessed separately when managing repricing risk. These stakeholders were therefore concerned that if the IASB were to require allocation of financial instruments to different underlying portfolios

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based purely on the currency the instrument is denominated in, for many financial instruments this allocation would be arbitrary and would not faithfully represent how an entity manages repricing risk.

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

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

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

BC62 The IASB decided that a hedged exposure is eligible for inclusion in the underlying portfolios if:

(a) the hedged items themselves are financial instruments that are eligible for inclusion in the underlying portfolios.

(b) the combined effect of the hedged item and hedging instrument changes an entity's exposure to repricing risk. In other words, the effects of the hedging relationship in its entirety must be included in the underlying portfolios.

BC63 The IASB is of the view that requiring an entity to designate a hedging relationship would minimise the risk of double-counting between different risk exposures because applying risk mitigation accounting would not change how the entity measures financial instruments included in the underlying portfolios.

Determining the net repricing risk exposure

BC64 The IASB observed that when entities manage repricing risk on a net basis, they treat the repricing risk arising from different underlying portfolios as interchangeable for risk management purposes and do not distinguish between the sources of such risk in deciding their risk management activities. The IASB also noted that an entity determining the net repricing risk exposure would aggregate the repricing risk from the underlying portfolios using repricing time bands based on the expected repricing date. The IASB concluded that because the net repricing risk exposure must be consistent with the repricing risk exposure used to inform risk management activities, requiring the use of expected repricing dates to aggregate repricing risk would provide a robust basis for applying risk mitigation accounting.

BC65 The IASB observed that net repricing risk exposure can be measured using various methods, depending on an entity's risk management strategy. Some risk measures focus on cash flow variability (for example, maturity gap analysis), whereas others focus on fair value variability (for example, present value of one basis point or PV01). The IASB decided to require an entity to determine the net repricing risk exposure using the measures the entity uses to quantify repricing risk as part of its risk management strategy. In the IASB's view, requiring entities to use the same measure they use to undertake risk management activities would be consistent with its objective to better reflect in the financial statements how entities manage repricing risk.

BC66 The IASB considered whether to specify the level of detail entities would be required to use in defining the repricing time bands (often referred to as time buckets) to ensure greater comparability between entities that apply risk mitigation accounting. However, the IASB decided not to include specific requirements in this regard, because doing so would not necessarily reflect entities' risk management practices and therefore would be inconsistent with the objective of risk mitigation accounting. Instead, the IASB decided that an entity would be required to determine the length and number of repricing time bands in a manner consistent with how the entity determines its exposure to repricing risk for risk management purposes.

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

Managing equity

BC68 During the development of the proposals in the Exposure Draft, stakeholders said they model equity (that is, the residual between their financial assets and financial liabilities) as stable funding of cash and highly liquid financial assets as part of their repricing risk management activities. These stakeholders consider equity to be a non-interest-bearing source of funding and regard it as

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a fixed-rate liability that provides funding to the entity at an effectively 0% interest rate (much like financial liabilities repayable on demand). This approach is commonly referred to as equity modelling or an equity model book.

BC69 The IASB acknowledged that an entity could use various approaches to determine the extent to which repricing risk arises from the entity's variable-rate financial assets. In the IASB's view, modelling equity as a proxy for the repricing risk arising from cash and highly liquid financial assets (if they are eligible for inclusion in the underlying portfolios) as part of an entity's repricing risk management activities is different from mitigating exposure to repricing risk arising from the entity's equity instruments. Therefore, the IASB concluded that the approach described in paragraph BC68 does not change the economic effects of an entity's risk mitigation activities as reflected in its financial statements. The IASB maintains that equity is a residual for financial reporting purposes (see paragraph 4.63 of the *Conceptual Framework*) and therefore is not eligible for inclusion in the underlying portfolios—even if it may be used as a proxy in risk mitigation accounting.

Designated derivatives

BC70 Entities mitigating their exposure to repricing risk arising from underlying portfolios often rely on derivatives to mitigate their exposure to variability in cash flow and fair value attributable to repricing risk. The risk mitigation accounting model is specifically developed for repricing risk, which is a form of interest rate risk; therefore, the IASB decided that designated derivatives would include only interest rate derivatives.

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

BC72 When developing the proposals in the Exposure Draft, the IASB noted that risk mitigation accounting and hedge accounting (as described in Chapter 6 of IFRS 9) are similar with regard to the use of derivatives to mitigate risk. The IASB was therefore of the view that some hedge accounting requirements might be relevant in the context of risk mitigation accounting—for example, the requirement for there to be an economic relationship between the hedged item and hedging instrument, and the requirement that the effect of credit risk not dominate the value changes that result from that economic relationship.

BC73 However, the IASB noted that an entity would be required to apply risk mitigation accounting in a manner consistent with its risk management strategy and the activities it undertakes to mitigate repricing risk by using derivatives. The IASB therefore concluded that the existence of an economic relationship between the designated derivatives and the amount of repricing risk being mitigated is an inherent part of the risk mitigation accounting

requirements. A specific requirement pertaining to an economic relationship is therefore unnecessary.

BC74 The IASB also considered whether to include a specific requirement relating to the effects of credit risk. Designated derivatives are required to be with a counterparty external to the reporting entity and therefore credit risk might affect the value changes of these derivatives. The IASB acknowledged that it is increasingly common for derivatives to be transacted through central clearing parties to minimise the risk of default by either counterparty. Consequently, credit risk would not be expected to affect the value changes of most designated derivatives. However, not all derivatives are transacted through central clearing parties and credit risk might affect the value changes of those that are not. The IASB therefore decided to specify that a derivative is not eligible for inclusion in designated derivatives if its fair value changes are dominated by credit risk (see paragraph 7.3.2 of the Exposure Draft).

BC75 The IASB proposed a restriction on the use of written options as designated derivatives, consistent with the restriction imposed by the hedge accounting requirements in IFRS 9. This restriction is intended to ensure that the designated derivatives are used to mitigate, rather than increase, repricing risk.

BC76 The IASB also decided to specify that a proportion of the notional amount of a derivative could be eligible for risk mitigation accounting (see paragraph 7.3.6 of the Exposure Draft). However, an entity would not be permitted to designate a derivative for only a portion of the period during which the derivative is outstanding because a derivative instrument has a single fair value measure.

BC77 The IASB proposes that an entity would not be permitted to voluntarily exclude a derivative that has been included as a designated derivative if that derivative is held for the purpose of mitigating repricing risk. This requirement would prevent entities from including or excluding derivatives to achieve a particular accounting outcome. However, the IASB also acknowledged that an entity's exposure to repricing risk changes frequently, which could necessitate changes or adjustments to designated derivatives. Such changes could include entering into offsetting or new derivatives, or closing out a designated derivative with the counterparty, and would not result in the discontinuation of risk mitigation accounting.

Applying risk mitigation accounting

Risk mitigation objective

BC78 Stakeholders have said that when managing repricing risk on a net basis, their objective is to achieve a residual exposure to repricing risk that is within their risk limits. However, they do not aim to achieve a particular risk exposure consistently from one period to the next and their target exposure changes frequently based on various factors.

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

(a) aims to mitigate the net repricing risk exposure to an amount that is within the risk limits set out in the entity's risk management strategy;

(b) is evidenced by the amount of repricing risk the entity intends to mitigate by using designated derivatives; and

(c) does not exceed the amount of net repricing risk exposure available in a repricing time band.

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

BC81 The IASB also considered whether to stipulate a minimum or maximum period for which the risk mitigation objective is specified or require an entity to specify the risk mitigation objective at a frequency consistent with the entity's internal reporting periods (for example, weekly or monthly). However, the IASB noted that the frequency with which entities undertake risk management activities might vary depending on circumstances, such as changes to the financial instruments included in underlying portfolios or changes in economic conditions. In the IASB's view, stipulating a minimum or maximum period would be arbitrary. Requiring the risk mitigation objective to be specified based on the frequency with which an entity reports internally to management could, in turn, create unjustifiable differences between the entity's actual risk management activities and what is reflected in the entity's financial statements. Therefore, to achieve its objective of reflecting how entities manage repricing risk, the IASB decided to require that an entity specify the risk mitigation objective each time it undertakes risk mitigation activities.

BC82 Because entities' risk management activities are forward-looking, the IASB decided that changes in the risk mitigation objective from one period to the next would apply prospectively only and would not affect the application of risk mitigation accounting in prior periods.

Benchmark derivatives

BC83 The risk mitigation objective is an absolute amount of repricing risk based on the measures an entity uses to quantify the net repricing risk exposure; it is not a representation of identifiable financial instruments or carrying amounts. The IASB noted that an entity would be unable to measure the value changes of the risk mitigation objective by reference to the financial instruments included in the underlying portfolios.

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

BC85 The risk mitigation objective is determined at a point in time based on an entity's expectations with regards to the repricing dates of financial instruments included in underlying portfolios, as well as current and future economic conditions. However, the actual outcomes will often be different from an entity's expectations and financial instruments included in the underlying portfolios might reprice earlier or later than expected.

BC86 Such unexpected changes to the net repricing risk exposure might result in the designated derivatives no longer mitigating the repricing risk. Instead, they could inadvertently create synthetic repricing risk positions. The IASB therefore decided that after an entity has constructed the benchmark derivatives, it is required to adjust them if unexpected changes occur that reduce the net repricing risk exposure to below the risk mitigation objective.

BC87 Not all entities have access to reasonable and supportable information that will allow them to determine the adjustments necessary to capture the effect of unexpected changes without incurring undue cost or effort. An entity's ability to capture such information depends on the specificity and level of detail with which it tracks changes in the underlying portfolios. The IASB therefore proposes that if such information is not available without undue cost or effort, an entity would deem the unexpected changes to have occurred when the most recent risk mitigation objective was specified. In the IASB's view, this operational simplification would be equivalent to adjusting the net repricing risk exposure as though the amount of repricing risk affected by the unexpected changes did not exist at that date, meaning the risk mitigation objective specified at that time would have been lower by that amount.

Recognition and measurement of the risk mitigation adjustment

BC88 When an entity manages fixed-rate and variable-rate financial assets and financial liabilities together without considering the origin of the repricing risk and uses derivatives to do so, the entity's repricing risk management activities usually serve a dual purpose, namely:

(a) reduced variability in fair value, which is reflected by deferring the fair value gains or losses from derivatives to the extent the entity has successfully mitigated repricing risk; and

(b) reduced variability in cash flows, which is reflected by the subsequent recognition of interest income and interest expenses in profit or loss.

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BC89 Therefore, in the IASB's view, the risk mitigation adjustment would represent the extent to which the designated derivatives mitigated the variability related to the repricing risk due to changes in market interest rates. If an entity's designated derivatives have not achieved its risk mitigation objective, the gains and losses not included in the risk mitigation adjustment would be recognised in profit or loss immediately. This approach is similar to the treatment of hedge ineffectiveness under the hedge accounting requirements in IFRS 9.

Recognising the risk mitigation adjustment

BC90 When the IASB proposed that an entity would recognise the risk mitigation adjustment in the statement of financial position, it acknowledged that no rights or obligations would be associated with the risk mitigation adjustment beyond the rights or obligations already accounted for through the underlying portfolios and the designated derivatives. As such, the IASB noted that recognition of the risk mitigation adjustment as an asset or a liability in the statement of financial position would not be consistent with the definition of an asset or a liability in the *Conceptual Framework*.

BC91 However, the *Conceptual Framework* acknowledges that in some circumstances it might be appropriate for the IASB to depart from aspects of the *Conceptual Framework* to meet the objective of general purpose financial reporting (see paragraphs SP1.2–SP1.3 of the *Conceptual Framework*).

BC92 The IASB concluded that departing from the *Conceptual Framework* on the definition of an asset or a liability might be justified to fulfil the objective of risk mitigation accounting, noting that:

(a) the alternative to recognising the risk mitigation adjustment in the statement of financial position would be recognising volatile gains or losses in other comprehensive income. This approach would not faithfully represent the economic phenomenon of risk management activities. Furthermore, it would be the result of mixed accounting measurement requirements and, therefore, would provide less useful information for users of financial statements than the proposed approach.

(b) the scope of the departure would be limited to specific risk management strategies and activities (see paragraph 7.1.4 of the Exposure Draft).

The 'lower of' requirement

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

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

BC95 The IASB deliberated the advantages and disadvantages of adapting this requirement for risk mitigation accounting. The main advantage is that it would provide useful information about the dual purpose of repricing risk management. By applying this requirement, an entity would report the effects of its risk management:

(a) in the statement of financial position—by recognising the risk mitigation adjustment only to the extent to which it has successfully mitigated the repricing risk. This approach provides useful information about the entity's risk management efforts. The risk mitigation adjustment would in effect represent the future benefit to be recognised in profit or loss when the mitigated cash flows from, or fair value changes of, the underlying portfolios affect profit or loss.

(b) in the statement of profit or loss—by immediately recognising the gains or losses not included in the risk mitigation adjustment in profit or loss. To the extent that the risk has been mitigated, the fair value changes are recognised in the same (future) period(s) as when the net interest income or economic value of underlying portfolios affect profit or loss. This approach faithfully represents the effects of risk mitigation accounting.

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

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

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

BC99 The IASB proposes that an entity disclose the extent of risk mitigation in accordance with the proposed requirements for IFRS 7 *Financial Instruments: Disclosures* in paragraphs 30L and 30M of the Exposure Draft. The proposed disclosure, combined with the statement of financial position, would provide an insight into the unmitigated balances that persist after the entity has carried out its risk management strategy and related activities. Updating the benchmark derivative to take into account unexpected changes to the net repricing risk exposure will result in any gains and losses not included in the risk mitigation adjustment being recognised immediately in profit or loss, and will provide useful information about such changes to users of financial statements.

BC100 During its deliberations, the IASB emphasised that the 'lower of' requirement in paragraph 7.4.8 of the Exposure Draft would be a cumulative requirement, beginning from an entity's initial application of risk mitigation accounting. Any gains and losses not included in the risk mitigation adjustment for a particular period would continue to be taken into account when the entity applies the 'lower of' requirement in future periods and would be reported in the statement of profit or loss over time.

Risk mitigation adjustment excess

BC101 Some stakeholders raised concerns that if an entity were to adjust the benchmark derivatives constructed as if unexpected changes to the net repricing risk exposure had occurred at the date the risk mitigation objective was last specified, the risk mitigation adjustment might not capture the full effects of all unexpected changes. Because an entity might change its risk mitigation objective frequently, the unexpected changes in the net repricing risk exposure could also affect the benchmark derivatives related to previous periods.

BC102 If an entity had adjusted the benchmark derivatives for unexpected changes for the current and previous periods, the risk mitigation adjustment would be expected to be realised in full. However, if an entity were unable to determine the effect of unexpected changes in the net repricing risk exposure or if reasonable and supportable information were not available without undue cost or effort, the risk mitigation adjustment might not be realised in full. For example, prepayments or other unexpected changes to the underlying

portfolios could influence the extent to which the designated derivatives mitigate cash flow and fair value variability in future periods.

BC103 The IASB noted that when specifying the risk mitigation objective, most entities do not aim to mitigate the net repricing risk exposure in full. The IASB therefore expects that, in most instances, unexpected changes in the net repricing risk exposure would not affect the realisation of the risk mitigation adjustment. However, the IASB acknowledged that, in some circumstances, the extent of unexpected changes might be so high that an entity would not be able to realise the risk mitigation in full.

BC104 The IASB therefore proposes that an entity be required to assess at each reporting date whether there is an indication that the risk mitigation adjustment will not be realised in full because of the effect of unexpected changes in the underlying portfolios for which the benchmark derivatives have not been adjusted.

BC105 The IASB's intention was for this assessment to serve as a reasonableness test based on a snapshot of the underlying portfolios included in the net repricing risk exposure at the reporting date. The assessment and the recognition of the excess of the risk mitigation adjustment in profit or loss ensure that the risk mitigation adjustment continues to represent the expected effects of repricing risk on the cash flows from, or the fair value of, the underlying portfolios to be realised over the mitigated time horizon.

Calculating the present value of the net repricing risk exposure

BC106 The IASB concluded that if an entity does not expect to realise the risk mitigation adjustment in full over the mitigated time horizon, the entity must recognise the excess amount in profit or loss immediately. In deliberating the most appropriate way to calculate this excess amount, the IASB noted that the measure should be consistent with the underlying principles of risk mitigation accounting and should not require undue cost or effort.

BC107 The IASB concluded that the best way to determine whether the risk mitigation adjustment could be realised in full would be to compare the amount in the statement of financial position with the theoretical maximum amount the risk mitigation adjustment could have been if the entity had mitigated the net repricing risk exposure as at the reporting date in full. The IASB proposes that the maximum amount of the risk mitigation adjustment is the present value of the net repricing risk exposure.

BC108 The IASB noted that the net repricing risk exposure is an important element of risk mitigation accounting. Because it is based on the information and measures an entity uses to make risk management decisions, the IASB expects that requiring entities to calculate the present value of the net repricing risk exposure at the reporting date would not result in significant costs or complexity.

BC109 The IASB acknowledged that calculating the present value of the net repricing risk exposure involves more than simply calculating the present value of the financial instruments in the underlying portfolios. Conceptually, the present value of the net repricing risk exposure would be represented by the value of a

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theoretical derivative (such as a benchmark derivative) that is constructed on the basis that the net repricing risk exposure is mitigated in full at the period end. However, the IASB concluded that it would not be appropriate to require entities to construct another theoretical derivative solely for the purpose of calculating the present value of the net repricing risk exposure.

BC110 The IASB therefore considered what the main drivers for changes in the present value of the net repricing risk exposure would be to assess whether the calculation of this value could be simplified. The IASB noted that calculating the present value of the net repricing risk exposure would be more straightforward for fixed-rate financial instruments. However, an entity would need to consider the effects of risk mitigation on variable-rate instruments in the net repricing risk exposure. The IASB noted that many entities have methodologies in place to determine the effects of risk mitigation on variable-rate instruments. The IASB therefore proposes that an entity be permitted to use various approaches to measure the present value of the net repricing risk exposure at the reporting date. All such approaches must be based on reasonable and supportable information that is available without undue cost or effort.

Recognising the excess in profit or loss

BC111 The IASB proposes that the excess of the risk mitigation adjustment be recognised in profit or loss (see paragraph 7.4.14 of the Exposure Draft). However, the IASB observed that an entity would only recognise the excess in profit or loss when the benchmark derivatives have not been adjusted for unexpected changes. Therefore, an entity might not be able to determine the reporting periods in which to make corresponding adjustments when the effects of repricing risk are expected to affect profit or loss.

BC112 Calculating the present value of the net repricing risk exposure is intended to be a reasonableness test. Accordingly, the IASB noted that the recognition of any excess of the risk mitigation adjustment is an approximation of the extent to which the risk mitigation adjustment will not be realised. Therefore, the IASB proposes that after an entity had recognised an excess in profit or loss, for the purpose of applying paragraph 7.4.10, the entity would adjust the recognition of the risk mitigation adjustment in profit or loss in future periods. The entity would make such adjustments on a systematic and rational basis, which could include a straight-line basis.

BC113 The IASB acknowledged that reducing the risk mitigation adjustment by the excess amount could give rise to challenges when applying the requirements in paragraph 7.4.8 of the Exposure Draft in future periods. However, the IASB expects that entities would recognise an excess of the risk mitigation adjustment in profit or loss infrequently. Furthermore, the benefits of risk mitigation accounting for preparers and users of financial statements would outweigh the costs of any complexity that might arise for preparers.

Reversing a previously recognised excess

BC114 After recognition of an excess in the risk mitigation adjustment, subsequent changes in the net repricing risk exposure could potentially lead to a situation in which the present value of the net repricing risk exposure at the next reporting date would exceed the risk mitigation adjustment at that later date. The IASB therefore considered whether subsequent changes in the present value of the net repricing risk exposure should result in the reversal of a previously recognised excess (like the reversal of an impairment loss).

BC115 The IASB took into account that subsequent increases in the present value of the net repricing risk exposure are likely to be the result of various factors, for example, new financial assets originated, new financial liabilities issued or subsequent favourable changes in market interest rates.

BC116 The IASB also acknowledged that permitting or requiring the reversal of such an excess could lead to potential earnings management. For example, if an entity recognised the excess of risk mitigation adjustment in profit or loss, the entity might have an incentive to reduce the risk mitigation objective in future periods (to leave more headroom in valuation) in the hope of reversing the excess. However, such a reversal would not provide useful information because it would be based on management actions rather than reinstatement of the original risk positions. In some cases, it might also lead to continuous recognition and reversal of amounts in profit or loss, which could be misleading for users of financial statements. Therefore, the IASB concluded that reversal of the excess should not be permitted.

Discontinuation of risk mitigation accounting

BC117 Risk mitigation accounting is intended to resolve the challenges in applying the hedge accounting requirements for entities whose exposure to repricing risk changes frequently. However, if an entity changes how it manages repricing risk, applying risk mitigation accounting would no longer align with its risk management strategy. In the IASB's view, it is important to distinguish between changes in how an entity manages repricing risk and changes caused by the dynamic nature of the entity's repricing risk exposure. Therefore, the IASB proposes that an entity discontinue applying risk mitigation accounting only if the entity changes how it manages repricing risk.

BC118 Like a change in the business model used to manage financial assets (see paragraph B4.4.1 of IFRS 9), changes in how an entity manages repricing risk are expected to result from factors that are likely to affect the entity's operations and are demonstrable to stakeholders. Because an entity's risk management strategy is intended to ensure long-term stability, the IASB expects changes to this strategy to be infrequent.

BC119 On the other hand, the IASB noted that changes that reflect the dynamic nature of an entity's repricing risk exposure are consistent with the objective of risk mitigation accounting. Therefore, such changes should not result in an entity discontinuing application of risk mitigation accounting. Examples include changes to:

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(a) the risk mitigation objective;

(b) the risk limits;

(c) the underlying portfolios; or

(d) the designated derivatives.

BC120 The IASB proposes that voluntary discontinuation be prohibited to avoid an entity applying risk mitigation accounting purely to achieve favourable accounting outcomes. This decision is consistent with the requirements in IFRS 9 that prohibit voluntary de-designation of a hedging relationship and the discontinuation of hedge accounting when the risk management objective for a particular hedging relationship remains the same, and all the other qualifying criteria are met (see paragraph B6.5.23 of IFRS 9 and paragraphs BC6.314–BC6.331 of the Basis for Conclusions on IFRS 9).

BC121 As a result, the IASB proposes that an entity not be permitted to de-designate a derivative or to voluntarily remove underlying portfolios that were included in the determination of the net repricing risk exposure if these items continue to meet the qualifying criteria.

BC122 The IASB proposes that upon discontinuing risk mitigation accounting, an entity continue to recognise the risk mitigation adjustment in the statement of profit or loss over the mitigated time horizon. This approach would ensure the effects of previous risk management activities continue to be recognised until the repricing risk is no longer expected to affect the cash flows from, or fair value of, the relevant underlying portfolios.

BC123 In the IASB's view, these proposals would ensure that if the financial instruments included in the underlying portfolios no longer gave rise to repricing risk (for example, because the financial instruments had expired or were settled), any remaining amount of the risk mitigation adjustment would immediately be recognised in profit or loss.

BC124 The IASB also concluded that financial instruments included in underlying portfolios for which risk mitigation accounting has been discontinued could be:

(a) included in a new application of risk mitigation accounting if the entity continues to manage its exposure to repricing risk on a net basis under its revised risk management strategy; or

(b) designated in a new hedging relationship under the hedge accounting requirements in Chapter 6 of IFRS 9, provided all the qualifying criteria have been met.

BC125 When an entity discontinues applying risk mitigation accounting following a change in risk management strategy, the IASB proposes that the entity be permitted to repurpose previously designated derivatives as:

(a) hedging instruments in a new hedging relationship (applying the hedge accounting requirements in Chapter 6 of IFRS 9); or

(b) designated derivatives in a new application of risk mitigation accounting, provided the qualifying criteria have been met.

BC126 However, the IASB emphasised that an entity would consider only the fair value changes arising after the date of redesignation when recognising and measuring the risk mitigation adjustment related to such underlying portfolios or designated derivatives.

Effective date and transition (Appendix C of the Exposure Draft)

Effective date

BC127 The IASB decided that because risk mitigation accounting is voluntary, an entity would be permitted to apply it from the beginning of an annual reporting period starting on or after [the date the requirements will be issued].

BC128 The feedback from the consultation will inform the IASB's decision on whether risk mitigation accounting should replace the remaining hedge accounting requirements in IAS 39. The IASB therefore proposes to specify the date from which entities would no longer be permitted to apply those requirements (see paragraph C1.17 of the Exposure Draft). If the IASB decides to withdraw the remaining IAS 39 requirements, it will decide that date taking into consideration the feedback on the Exposure Draft.

Transition

BC129 When considering potential transition requirements for the initial application of risk mitigation accounting, the IASB noted that these requirements should not only relate to the transition from IAS 39 hedging relationships, but also the transition from IFRS 9 hedging relationships.

BC130 Furthermore, the IASB noted that some entities might previously have chosen not to apply hedge accounting because the limitations of the current requirements meant that they were unable to faithfully reflect the effects of their risk management activities in their financial statements. Although some of these entities might have decided to accept the accounting mismatches in their financial statements, others might have applied the fair value option to their financial assets or financial liabilities instead.

BC131 IAS 8 *Basis of Preparation of Financial Statements* states that retrospective application is the preferred approach to applying new requirements for the first time. However, in relation to the initial application of hedge accounting requirements, retrospective application—like retrospective designation—gives rise to concerns about the use of hindsight. In the IASB's view, prospective application of risk mitigation accounting would not only be consistent with the judgements and decisions an entity makes when applying risk mitigation accounting, but would also avoid an entity using hindsight in deciding whether and when to apply risk mitigation accounting. The IASB viewed this requirement as especially important because the application of risk mitigation accounting is optional. Therefore, like the initial application of the hedge

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accounting requirements in Chapter 6 of IFRS 9, the IASB proposes that risk mitigation accounting be applied prospectively.

BC132 The IASB noted that the initial application of risk mitigation accounting would require discontinuation of existing hedge accounting relationships (regardless of whether they are in accordance with IFRS 9 or IAS 39). Therefore, the Exposure Draft should include transition requirements covering both scenarios.

Entities that previously applied the hedge accounting requirements in IAS 39

BC133 Entities that previously applied the hedge accounting requirements in IAS 39 include those that made the accounting policy choice to apply the portfolio fair value hedge requirements in accordance with paragraph 6.1.3 of IFRS 9. If feedback on the Exposure Draft indicates that the proposed risk mitigation accounting requirements would be an appropriate replacement for the remaining IAS 39 hedge accounting requirements, entities would be required to discontinue applying those requirements.

BC134 The IASB noted that because the application of risk mitigation accounting is optional, some entities might prefer to apply the hedge accounting requirements in Chapter 6 of IFRS 9. The IASB was of the view that such entities should apply the transition requirements for hedge accounting in accordance with paragraphs 7.2.22–7.2.26 of IFRS 9.

BC135 However, if an entity decided to apply risk mitigation accounting, the prospective application of risk mitigation accounting would not directly affect the application of hedge accounting in the prior reporting periods. Therefore, fair value hedge adjustments and cash flow hedge reserves related to any discontinued hedging relationships would be unaffected because risk mitigation accounting would only capture value changes from that date onwards.

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

Entities that previously applied the hedge accounting requirements in IFRS 9

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

BC138 The IASB noted that discontinuing such a hedging relationship be permitted only if the hedging relationship no longer met the qualifying criteria in paragraph 6.4.1 of IFRS 9. In most cases, the introduction of new accounting requirements would not automatically result in the qualifying criteria no longer being met.

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

Entities that do not apply hedge accounting requirements

BC140 Some entities whose risk management activities have the characteristics specified in paragraph 7.1.4 of the Exposure Draft might not currently apply hedge accounting but could still decide to apply risk mitigation accounting. Such entities might include those that have decided:

(a) to accept the accounting mismatches between the underlying portfolios and derivatives, and account for them applying the general requirements in IFRS 9; or

(b) to reduce the accounting mismatches between the underlying portfolios and derivatives by designating the underlying portfolios as measured at fair value through profit or loss in accordance with paragraph 4.1.5 or paragraph 4.2.2 of IFRS 9.

BC141 The entities described in paragraph BC140(a) do not need transition requirements because such entities may choose to apply risk mitigation accounting prospectively from any date after the date of initial application.

BC142 However, the IASB noted that for the entities described in paragraph BC140(b), the optional designation of financial assets or financial liabilities as measured at fair value through profit or loss is available only at initial recognition of the financial instruments and is irrevocable. Therefore, without a transition relief, such financial instruments would not be eligible for inclusion in underlying portfolios for the purpose of determining the net repricing risk exposure.

BC143 In the IASB's view, risk mitigation accounting could provide such entities with a way to more faithfully reflect the effects of their repricing risk management activities. The IASB concluded that it would not be appropriate to prevent these financial assets or financial liabilities from being included in the underlying portfolios for the purpose of determining the net repricing risk exposure.

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

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BC145 In the IASB's view, because risk mitigation accounting can only be applied prospectively, any such revocation should also be prospective. The fair value of a financial instrument on the date of initial application for an entity applying the transition requirements would become its new gross carrying amount and the basis for determining the instrument's effective interest rate. For the purpose of applying Section 5.5 of IFRS 9 to financial assets, the date of initial application of risk mitigation accounting is treated as the date of initial recognition of the financial asset.

Transition disclosures

BC146 If the initial application of new requirements affects the current period or might affect future periods, an entity would ordinarily be required to provide the disclosures specified in paragraph 28 of IAS 8. However, in the IASB's view, this requirement would be inconsistent with the prospective application of risk mitigation accounting because it would be impracticable for an entity to apply two substantially different accounting methods at the same time.

BC147 Furthermore, in the IASB's view, specific transition disclosures would be necessary to enable users of financial statements to understand the effects of the transition to risk mitigation accounting on an entity's financial statements. Such disclosures would be necessary to provide information about the IFRS 9 or IAS 39 hedge relationships that have been discontinued and about how the underlying portfolios and derivatives have been included in risk mitigation accounting. The IASB therefore decided to propose amendments to the transition disclosures included in IFRS 7 (see paragraph 44RR of the Exposure Draft).

Proposed amendments to IFRS 7 *Financial Instruments: Disclosures*

Statement of comprehensive income

BC148 Over the course of the IASB's project to develop macro hedge accounting requirements, users of financial statements have said that to enable them to understand how entities manage their exposure to repricing risk, the financial statements should provide information that can be used to predict an entity's future financial performance. In particular, users need information that enables them:

(a) to identify the effect of risk mitigation accounting separately from an entity's interest income or interest expense; and

(b) to understand how much an entity relies on using derivatives to stabilise and achieve its current net interest income.

BC149 The IASB agreed that the distinction described in paragraph BC148(a) would improve transparency and would enable users of financial statements to better analyse and understand the effect of an entity's risk management activities on its current and future economic resources. Therefore, the IASB decided to propose that an entity present the effect of risk mitigation accounting in a separate line item in the statement of comprehensive income.

BC150 The IASB noted that in accordance with paragraph 23 of IFRS 18, 'an entity needs not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary. This is the case even if IFRS Accounting Standards contain a list of specific required line items or describe the line items as minimum requirements.'

Statement of financial position

BC151 Following deliberation on the presentation of the risk mitigation adjustment in the statement of financial position, the IASB proposes that it be presented in a separate line item because:

(a) it reflects the effects of an entity's risk management activities and it is specific to the entity's risk management strategy;

(b) its separate presentation in the statement of financial position would support comparability between entities that do or do not apply risk mitigation accounting;

(c) it does not meet the definition of an asset or liability set out in the *Conceptual Framework* and therefore differs from an entity's other assets or liabilities (see paragraphs BC90–BC92); and

(d) its measurement basis differs from that of an entity's other financial assets and financial liabilities.

BC152 Therefore, in the IASB's view, it is necessary for an entity to present the risk mitigation adjustment in a separate line item in the statement of financial position. However, an entity only needs to present a line item separately in a primary financial statement if doing so is necessary for the statement to provide a useful structured summary (see paragraph BC150).

Disclosure objectives

BC153 In the IASB's view, the disclosure objectives of risk mitigation accounting should be like those for hedge accounting (see paragraph 21A of IFRS 7). The disclosure objectives proposed in paragraph 30F of the Exposure Draft are intended to enhance the transparency of information an entity provides about its repricing risk management strategy and how it manages the effects of repricing risk on the cash flows from, or fair value of, the underlying portfolios.

Level of aggregation

BC154 During the development of the proposals in the Exposure Draft, the IASB heard from stakeholders that one of their ongoing concerns relates to the appropriate level of aggregation or disaggregation of any proposed disclosure requirements. In general, the more disaggregated that information is required to be, the higher the risk of commercially sensitive information being disclosed. Similarly, many users of financial statements said that analysing large volumes of detailed disclosures that involve complex assumptions and methodologies might lead to provision of information that is not useful. Users

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of financial statements often try to obtain an overview of an entity's overall interest rate risk management activities and identify trends in the extent of interest rate risk an entity mitigates. Therefore, information that is too detailed might obscure other material information or might not be material.

BC155 Therefore, the IASB proposes not to specify the level of aggregation required for the disclosure of information relating to risk mitigation accounting. Paragraph 41 of IFRS 18 sets out principles for aggregating and disaggregating information in financial statements, including in the notes. Accordingly, to meet the disclosure objectives of risk mitigation accounting, an entity would be required to apply the requirements in IFRS 18 when determining the appropriate level of aggregation.

Disclosure of risk management strategy

BC156 The proposed disclosures in paragraph 30I of the Exposure Draft are mainly qualitative in nature and describe how an entity identifies, aggregates, monitors and manages the repricing risk. In the IASB's view, because this information reflects the essential elements of an entity's risk management process, these disclosures would provide useful information to users of financial statements without requiring entities to incur significant additional costs to provide the information. Furthermore, the information that would be provided in accordance with the proposed requirements is not commercially sensitive because it is broadly similar to the information currently provided by entities that apply hedge accounting (see paragraph 22A of IFRS 7).

Disclosure of the amount, timing and uncertainty of future cash flows

BC157 The IASB noted that an entity disclosing information about designated derivatives and their effect on the amount, timing and uncertainty of its cash flows would enable users of financial statements to understand the extent to which the entity had mitigated its repricing risk exposure. Such information would also enable users to understand how the risk mitigation adjustment would be recognised in the statement of profit or loss over the mitigated time horizon. The IASB therefore decided to propose an entity disclose the information specified in paragraph 30J of the Exposure Draft.

BC158 The IASB also considered the potential commercial sensitivity of this information. It concluded that because the information relates to the cash flows of the designated derivatives and not directly to the pricing or costing structure of any financial instruments included in the underlying portfolios, it is unlikely to be commercially sensitive.

BC159 The IASB responded to any residual risk of disclosure of commercially sensitive information by proposing that an entity be permitted to use the cash flows of the designated derivatives to infer the cash flow breakdown of underlying portfolios. The IASB concluded that the proposed disclosures would not result in the provision of commercially sensitive information because:

(a) the designated derivatives would only mitigate a portion of an entity's net repricing risk exposure in most cases, so there is no direct link between the amount, timing and uncertainty of cash flows from designated derivatives and those from eligible underlying portfolios;

(b) such disclosures could be provided on an aggregated basis; and

(c) the current hedge accounting disclosure requirements in paragraphs 23A–23F of IFRS 7 require similar information and have not led to the disclosure of commercially sensitive information.

BC160 The IASB concluded that the proposed disclosures would enable users of financial statements to understand the extent of risk mitigation as part of an entity's risk management strategy. These disclosures would enhance the transparency of information provided about how an entity has mitigated the variability in cash flows and/or fair value.

BC161 During its deliberations on the disclosure of information about an entity's net repricing risk exposure, the IASB heard from users of financial statements that quantitative information about an entity's interest rate risk exposures and the mitigated rate would enable them to predict the future performance of the entity. However, most preparers commented that such disclosures could potentially result in the provision of forward-looking information that could put them in an unfair position compared with competitors that do not apply risk mitigation accounting or IFRS Accounting Standards.

BC162 When the IASB was developing the current hedge accounting disclosure requirements in IFRS 7, it acknowledged that disclosures focusing on the hedged risk would potentially provide competitors with insight into an entity's costing structure (see paragraphs BC35W–BC35X of the Basis for Conclusions on IFRS 7). It decided not to require information to be disclosed about the total risk exposure of the hedged items because of the potential forward-looking nature of this information. In line with this rationale, the IASB concluded that it would be inappropriate to require entities to disclose information about the net repricing risk exposure on a total or residual risk exposure basis.

BC163 Instead, the IASB proposes that an entity be required to provide a sensitivity analysis showing how its exposure to repricing risk might change depending on movements in market interest rates. The entity would use reasonable and supportable information available at the reporting date to determine changes in the mitigated rate that were reasonably possible at the end of the reporting period. In the IASB's view, disclosure of this information would enable users of financial statements to assess how interest rate changes would have affected the entity's underlying portfolios if the entity had not undertaken risk management activities.

BC164 The IASB acknowledged that some entities might not specify whether their exposure to repricing risk arose from underlying portfolios or from the designated derivatives. Isolating and providing sensitivity analysis for only the exposure to repricing risk arising from the underlying portfolios might not be consistent with such entities' risk management information. However, the

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IASB proposes that the sensitivity analysis provided be based on the exposure to repricing risk arising from the underlying portfolios only, given the importance of this distinction to users of financial statements.

Disclosure of the effects on financial position and performance

BC165 Paragraphs 24A–24F of IFRS 7 require an entity to disclose the effects of hedge accounting on its financial position and performance, which includes disclosure in a tabular format of information about:

(a) the hedging instruments and hedged items, such as the carrying amounts;

(b) the line items in which these items are included; and

(c) the accumulated amount of the fair value hedge adjustment or cash flow hedge reserve.

BC166 In the IASB's view, most of the information needs of users of financial statements could be met through similar requirements. Therefore, the IASB proposes that an entity provide the information set out in paragraph 30L of the Exposure Draft for the net repricing risk exposure and paragraph 30M of the Exposure Draft for the designated derivatives.

BC167 The risk mitigation adjustment represents the extent to which an entity's risk management activities have provided benefit or protection in the form of reduced variability in the cash flows, or fair value of, the underlying portfolios during the mitigated time horizon. Therefore, the IASB proposes that an entity provide information about how the entity reflects:

(a) the effect of unexpected changes in the net repricing risk exposure during the repricing risk assessment period;

(b) the gains or losses on the designated derivatives not included in the measurement of the risk mitigation adjustment, both for the period and cumulatively; and

(c) the expected profile for recognition of the risk mitigation adjustment in profit or loss based on the designated and benchmark derivatives and distinguishing between ongoing and discontinued risk mitigation accounting.

BC168 The IASB also proposes that an entity provide a reconciliation from the opening to the closing balance of the risk mitigation adjustment in a tabular format in the notes (see paragraph 30O of the Exposure Draft). In the IASB's view, this reconciliation would help users of financial statements understand the potential effect of applying the model on the variability of cash flows or fair value—distinguishing between amounts related to ongoing and discontinued risk mitigation accounting.

Entities that do not apply risk mitigation accounting

BC169 Feedback from users of financial statements suggested that if entities choose not to apply hedge accounting, their disclosures often lack information about how they manage repricing risk. In the IASB's view, the same would be true for entities that frequently change their risk management activities but have chosen not to apply risk mitigation accounting.

BC170 In the IASB's view, it is not feasible to require an entity to disclose detailed information if it has chosen not to apply risk mitigation accounting. An entity might decide not to apply risk mitigation accounting for many reasons even if it carries out the applicable repricing risk management activities. The IASB also concluded that it would not be appropriate to require such entities to disclose quantitative information as if they were applying risk mitigation accounting. Furthermore, such an approach would extend beyond reflecting the effects of an entity's risk management activities on the financial statements and therefore falls outside the remit of this project.

BC171 The IASB therefore proposes to require entities that meet the criteria set out in paragraph 7.1.4 of the Exposure Draft, but that choose not to apply risk mitigation accounting, to disclose qualitative information about how the exposure to repricing risk arises, the related risk management activities and how this is reported in their financial statements. This requirement would enable users of financial statements to understand such entities' interest rate risk management strategies and how they are applied to repricing risk management. In the IASB's view, such disclosures might also improve the clarity of risk-related information in the financial statements of entities with significant exposure to repricing risk.

Amendments to other IFRS Accounting Standards

Proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

BC172 IFRS 1 *First-time Adoption of International Financial Reporting Standards* currently does not permit retrospective application of hedge accounting to transactions entered into before the date of transition to IFRS Accounting Standards (see paragraphs B4–B6 of IFRS 1). The IASB has not identified any reason to change this requirement for risk mitigation accounting.

BC173 At the date of transition to IFRS Accounting Standards, a first-time adopter would have to look at all its risk management activities to understand which activities would meet the qualifying criteria of risk mitigation accounting, and whether the effects of these activities would be better reflected by applying risk mitigation accounting.

BC174 If first-time adopters were permitted to apply risk mitigation accounting retrospectively, they would be likely to face the same challenges associated with the use of hindsight as entities that already apply IFRS Accounting Standards. Furthermore, before beginning the preparations for adopting IFRS 9 and applying risk mitigation accounting, it is unlikely that an entity would have met all the qualifying criteria for applying risk mitigation

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accounting, including documentation and collection of necessary data even if the entity already carries out the applicable risk management activities.

BC175 Therefore, the IASB proposes to require the prospective application of risk mitigation accounting by a first-time adopter for the same reasons as discussed in paragraph BC131 in relation to entities that currently apply IFRS Accounting Standards.

Proposed amendments to IFRS 18 *Presentation and Disclosure in Financial Statements*

BC176 Paragraphs B70–B74 of IFRS 18 *Presentation and Disclosure in Financial Statements* specify requirements for the classification of gains or losses on derivatives and designated hedging instruments. In accordance with these requirements, gains or losses on such derivatives are classified in the statement of profit or loss in the same category as the income and expenses affected by the risks the financial instrument is used to manage. In the IASB's view, for the purpose of risk mitigation accounting, the gains or losses on the designated derivatives are like those on the derivatives used as hedging instruments when applying hedge accounting. Therefore, the IASB decided to amend paragraphs B70–B72 and B74 of IFRS 18 to include references to designated derivatives.

Proposed amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

BC177 During its deliberations, the IASB concluded that most of the entities that carry out applicable risk management activities and qualify to apply risk mitigation accounting would not be eligible to apply the requirements in IFRS 19 *Subsidiaries without Public Accountability: Disclosures*. However, the IASB acknowledged that there might be situations in which some subsidiaries without public accountability carry out similar activities and qualify to apply risk mitigation accounting. The IASB considered whether it would be appropriate to add reduced disclosure requirements to IFRS 19 on risk mitigation based on the six principles set out in paragraph BC33 of the Basis for Conclusions on IFRS 19, and it decided not to do so.

BC178 The IASB took this decision because the complexity of risk mitigation accounting means that adding such reduced requirements would significantly reduce the usefulness of the information provided by applying risk mitigation accounting. Furthermore, most of the information that an entity would be required to disclose would arise directly from the application of risk mitigation accounting and therefore would probably be available without undue cost. The IASB is also of the view that requiring all entities that apply risk mitigation accounting to provide the same complete list of disclosures would allow users of financial statements to become more familiar with risk mitigation accounting and its effects on an entity's financial statements.

Analysis of the effects of risk mitigation accounting

BC179 For each aspect of the requirements proposed in the Exposure Draft, the IASB weighed up the likely costs and benefits for preparers and users of financial statements. For example, the IASB considered how best to balance the information needs of users of financial statements with preparers' concerns about the potential costs of implementation and the disclosure of commercially sensitive information.

BC180 The IASB acknowledged that the challenges and complexities related to applying the hedge accounting requirements in IFRS 9 and IAS 39 make it difficult for entities to faithfully represent the economic effect of their risk management activities in their financial statements. One reason for the lack of transparency in financial statements about how an entity manages its repricing risk is the use of proxy designations for hedged items. This practice arises because of the restrictions imposed by the current hedge accounting requirements on which items are eligible for designation as hedged items.

BC181 The IASB is of the view that by applying risk mitigation accounting instead, an entity would be able to provide a clearer link between information reported in its financial statements and its risk management activities. Risk mitigation accounting would benefit entities by:

(a) enabling them to better communicate with investors by better reflecting in financial statements the effects of how repricing risk is managed (reducing the need for proxy hedging and including more financial instruments in the underlying portfolios, such as demand deposits and some pipeline transactions); and

(b) improving operational efficiency because of closer alignment between their risk management activities and financial reporting.

BC182 Risk mitigation accounting supports better decision-making by users of financial statements by providing:

(a) improved transparency regarding an entity's interest rate risk management strategy and how it systematically and dynamically responds to a changing interest rate environment and the effect of its strategy and responses; and

(b) more comprehensive information, including improved anchor points to information provided outside the financial statements and that will enable users of financial statements to ask relevant questions.

BC183 The initial application of risk mitigation accounting would require entities to incur one-off costs, like those listed in paragraph BCE227 of the Basis for Conclusions on IFRS 9. Such costs would relate to:

(a) development of new processes, systems and controls to integrate risk management information into their financial reporting processes (for example, design, set-up and governance of the assessment of whether the risk mitigation will be realised in full);

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(b) creation of financial reporting capabilities for some newly eligible accounting treatments, where needed—for example, construction and measurement of benchmark derivatives;

(c) arrangement of required documentation upon implementation of the new risk mitigation accounting requirements;

(d) education of financial reporting, treasury, risk management and other relevant staff to enable them to assess whether the information prepared for risk mitigation purposes complies with the risk mitigation accounting requirements; and

(e) production of guidance material necessary to explain the effects of risk mitigation accounting to the users of financial statements.

BC184 The IASB also acknowledged that there would be ongoing costs associated with risk mitigation accounting (for example, costs related to the construction and valuation of the benchmark derivatives, and the calculation and monitoring of the risk mitigation adjustment). However, the IASB expects these costs would be lower than the current costs of applying hedge accounting requirements. For example, when applying risk mitigation accounting, entities would no longer have to repeatedly de-designate and re-designate hedging relationships to accommodate the frequent changes in their risk management activities.

BC185 In the IASB's view, the initial and ongoing costs of applying risk mitigation accounting will depend on each entity's individual circumstances. Many factors could be relevant, including the length of the mitigation time horizon, the frequency of changes to the risk mitigation objective, the number and type of designated derivatives, and the processes and systems the entity has used to implement risk mitigation accounting. Given the difficulty in estimating the likely costs for preparers of a new accounting model, the IASB expects to obtain information about likely costs during the consultation and fieldwork. Entities would need to evaluate whether the costs incurred are justified by the improved ability to reflect the effects of repricing risk management in their financial statements. The proposed withdrawal of IAS 39 would be another relevant factor. If an entity is no longer able to apply those requirements, it will inevitably incur costs associated with applying a new set of accounting requirements—whether those costs arise from applying risk mitigation accounting, applying hedge accounting in accordance with IFRS 9 or recognising all gains or losses on its derivatives in profit or loss.

BC186 Even entities with sophisticated risk management functions (including bespoke solutions) that produce reliable information to help manage repricing risk would be likely to incur some costs relating to the initial application of the new requirements. However, the IASB expects that the ongoing application costs would be lower because of the potential efficiencies gained from better aligning risk management with financial reporting. Furthermore, the IASB notes that entities applying risk mitigation accounting would benefit from closer alignment between financial reporting and risk management when communicating their performance.

BC187 The IASB also expects that disclosing the proposed information about risk mitigation accounting in a single note would reduce costs for users of financial statements. Users would be able to access a set of information that is more transparent and relevant to their analysis of an entity's performance, and more closely linked to the entity's risk management decision-making. Furthermore, these requirements would also reduce the need for users of financial statements to rely on unaudited management information to understand the effects of an entity's risk management activities on its financial statements.

BC188 Consequently, the IASB concluded that the long-term benefits of implementing risk mitigation accounting are likely to outweigh the associated costs for entities.

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IFRS Foundation

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel **+44 (0) 20 7246 6410**
Email **customerservices@ifrs.org**

ifrs.org

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