



Risk mitigation accounting

**Proposals to better align accounting and
dynamic repricing risk management**

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A new accounting model for dynamic risk management

Financial institutions manage their risks on a continuous basis in a dynamic way. This includes setting the strategy, identifying and analysing risks (e.g. repricing risk), and mitigating them. However, current hedge accounting requirements are not designed to reflect this process.

Now the International Accounting Standards Board (IASB) is proposing a new optional accounting model to better reflect how an entity manages its repricing risk. There would also be new presentation and disclosure requirements, including a new risk mitigation adjustment line item in the statement of financial position.

If the proposals are finalised, then the IASB would withdraw the existing hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement*. This would impact any entity that currently applies IAS 39.

Implementing the new model could mean new processes, systems and controls, so the IASB has allowed an extended comment period to enable those affected to field-test this proposed model and consider its practical implications.

To help you determine what these changes could mean for you, this publication provides our insights and analysis – principally for banks (see [Sections 1–3](#)) and for insurers (see [Section 4](#)). We analyse the proposals, offer illustrative examples, and explore some of the potential impacts and considerations.

We hope you find it useful as you think through the implications for your business and formulate your response.

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1 At a glance

Proposals to introduce a new risk mitigation accounting (RMA) model in IFRS 9 *Financial Instruments* aim to better align financial reporting with risk management activities. The new model, although optional, would apply for those entities that are exposed to and manage interest rate risk via a risk management strategy – typically banks and insurers.

An entity may apply the RMA model if:

- its business activities expose it to repricing risk; and
- it has a risk management strategy (RMS) in place to manage that repricing risk on a net basis against risk limits using derivatives.

The proposals would result in a significant change for entities that manage their exposure to repricing risk arising from financial assets and financial liabilities that change continually.



The proposals aim to:

- better reflect entities' dynamic risk management activities that arise from an open portfolio of changing financial assets and financial liabilities in the financial statements; and
- reduce operational complexities with the current macro hedge accounting requirements.

Further, entities would no longer be able to hedge account under IAS 39, because these requirements would be withdrawn once the proposals are finalised. Instead, they could:

- apply the RMA model (if eligible);
- apply the general hedge accounting requirements under IFRS 9; or
- cease hedge accounting altogether.

Next steps

Before finalising the model, the IASB is asking stakeholders to field-test it and provide their feedback on the:

- exposure draft (ED) by 31 July 2026; and
- request for fieldwork by 30 November 2026.

[Appendix 1](#) summarises the project history; [Appendix 2](#) sets out the next steps for this project.

1.1 Key impacts

The new RMA model would seek to reduce operational restrictions imposed by current macro hedge accounting requirements under IAS 39. It may also have the following impacts.

Impact on primary financial statements

The risk mitigation adjustment (RM adjustment) and its profit or loss impact would be recognised in separate line items in the primary financial statements. Presenting these amounts separately would allow for greater transparency on an entity's effectiveness at managing its repricing risk.

New disclosures in the financial statements

The following new disclosures would be required.

- The RMS and how that strategy is used to manage exposure to repricing risk.
- Details of the net repricing risk exposure (NRRE) in a tabular format.
- A reconciliation from the opening to the closing balance of the RM adjustment in a tabular format and information about how it has been measured.
- Details on the composition of designated derivatives in a tabular format. Also, quantitative and qualitative information on their terms and conditions and how these affect the amount, timing and uncertainty of the entity's future cash flows.

New judgements and estimates

Entities would be required to maintain sufficient information to support management's underlying assumptions used in new judgements and estimates – e.g. estimations of forecasted cash flows for eligible items in the RMA model.

New systems, processes and controls

New or updated processes, controls, governance and roles and responsibilities could be required to integrate risk management information between the treasury, risk and accounting and reporting functions. For example:

- integrating the RMA model into the current risk management environment;
- incorporating the risk management modelling of newly eligible financial assets or financial liabilities into the financial reporting process – e.g. demand deposits; and
- preparing the RMA documentation in line with an entity's RMS.

Internal functions (e.g. treasury, risk, accounting and reporting) and an entity's stakeholders might also need educating on the new model.

IFRS 9 general hedging requirements would remain available

Entities currently applying IFRS 9 general hedge accounting for hedges of interest rate risk may choose either to continue to do so, or discontinue and apply the RMA model instead, if they meet the eligibility criteria.

1.2 Introducing the RMA model

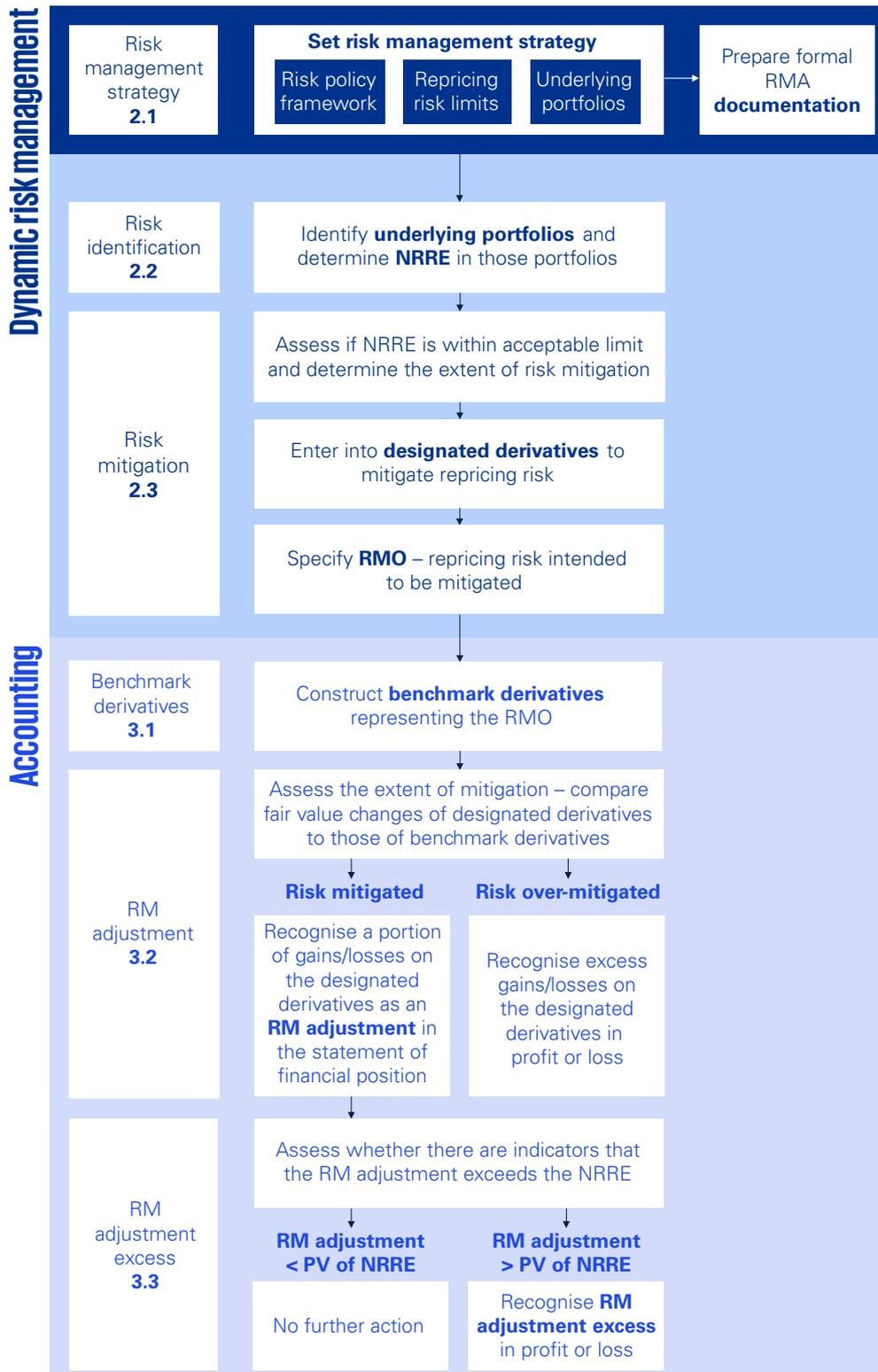
The new model is designed specifically for dynamic portfolios of financial assets and financial liabilities that are subject to repricing risk and managed on a net basis. Typically, an entity that is exposed to repricing risk will have an RMS that covers how it identifies and mitigates that risk. Accounting under the RMA model would require an entity to first prepare formal documentation detailing how it will apply the model in line with its RMS.

Identify underlying portfolios	An entity would identify the financial assets, financial liabilities and future transactions that expose it to repricing risk (i.e. its underlying portfolios).
Determine the NRRE	An entity would determine the NRRE of its underlying portfolios on a continuous basis, using expected cash flows and expected repricing dates.
Enter into designated derivatives	If the NRRE is outside the risk limits specified in the RMS, then the entity would mitigate the repricing risk by entering into external derivatives (designated derivatives).
Specify the RMO	The designated derivatives would evidence the extent to which the entity intends to mitigate the risk – i.e. its risk mitigation objective (RMO). When an entity further transacts designated derivatives to mitigate changes in repricing risk within the NRRE, it would specify a new RMO. It would do this on a continuous, dynamic basis.
Construct benchmark derivatives	To assess the extent to which an entity successfully mitigated its repricing risk, it would construct hypothetical derivatives (benchmark derivatives) by replicating the timing and amount of repricing risk specified in its RMO.
Determine the RM adjustment	An entity would compare the changes in fair values of the designated and the benchmark derivatives (in absolute amounts) and would recognise: <ul style="list-style-type: none"> • in the statement of financial position, the lower of those fair value changes representing repricing risk successfully mitigated by the designated derivatives (the RM adjustment); and • in profit or loss, any remaining gain or loss on the designated derivatives.
Assess the RM adjustment	An entity would assess whether the recognised RM adjustment continues to represent the amount of NRRE being mitigated – e.g. following an unexpected reduction in the entity's NRRE. To capture the effects of unexpected changes, the entity would: <ul style="list-style-type: none"> • during the reporting period: monitor unexpected changes causing the NRRE to be below the RMO¹. If this is the case, then it would adjust the benchmark derivatives to reflect these unexpected changes; and • at each reporting date: if an indicator exists, then it would assess whether the RM adjustment in the statement of financial position remains appropriate by comparing the RM adjustment to the present value of the NRRE at the reporting date. It would recognise in profit or loss any RM adjustment excess.

1. The RMO could not exceed the NRRE because the RMO would need to reduce, not increase, the repricing risk to which the entity is exposed.

1.3 Navigating the RMA model

The following diagram summarises how an entity identifies, mitigates and would account for repricing risk under the RMA model. It includes references, when relevant, to key elements explained in this publication.



2 Dynamic risk management and the RMA model

The RMA model aims to better reflect how an entity dynamically manages its financial assets, financial liabilities and other transactions subject to repricing risk.

This section discusses some key elements of a typical bank's repricing risk management activities and how they interact with the RMA model.

2.1 Risk management strategy

ED.7.1.4, 7.1.6–7.1.7, B7.1.2, B7.1.6–B7.1.7

The objective of the RMA model is for financial statements to represent the economic effect of how an entity manages its repricing risk in accordance with its RMS. Therefore, the RMS is the basis for applying the RMA model.

An entity's RMS comprises how it:

- identifies repricing risk; and
- mitigates that risk.

ED.7.1.4 (b), 7.1.7(a), 7.2.7, B7.1.6–B7.1.7

To achieve its RMS, an entity needs to maintain an asset and liability management (ALM) framework. This framework, and the associated dynamic and continuous risk management activities, would help ensure that repricing risk remains within the risk limits set out in the RMS.

An effective ALM is crucial to an entity's financial resilience and performance, because it can assist with the following.



Generate the ability to create **economic value**



Allow informed decisions around **risk mitigation** and strategic risk acceptable for growth



Provide insights into **risks and sensitivities** of the income and financial position to interest rate movements



Facilitate accurate **products pricing and profitability**



Support the management of **liquidity risk** and enhance **return on capital**

An entity's exposure to, and management of, repricing risk through ALM is important for investors and analysts to understand, in particular when assessing the future viability and profitability of an entity. This is what the RMA model would seek to provide.

**Would the RMA model capture the dynamic risk management activities an entity performs through ALM?**

Yes. As part of its risk management activities, an entity manages financial instruments and transactions on an open portfolio basis. This means that replacing items within the portfolios would not change the entity's risk management decisions when its overall NRRE (see 2.2.1) remains the same, or within acceptable limits.

The current hedge accounting requirements do not fully accommodate the dynamic nature of open portfolios. Fair value hedges of interest rate risk under IAS 39 provide a framework that partially addresses open portfolios. Under IAS 39, changes in the portfolio may need to be treated as hedge discontinuations, even when they have no impact on the overall risk exposures. This generates operational complexities – e.g. amortising adjustments arising from those discontinued hedges.

Under the proposals, the need to discontinue the RMA model would be reduced because changes within the underlying portfolios themselves would not require discontinuation. Instead, discontinuation would be necessary only when there is a change to an entity's RMS (see Section 3.4).

2.1.1*ED. Appendix A***Repricing risk**

Many entities, typically financial institutions, are exposed to repricing risk – a type of interest rate risk. Repricing risk occurs when market interest rates change and cause cash flows and/or the fair value of the financial instruments held to vary.

For a bank, repricing risk typically arises in its banking book² and can include the following risks. For repricing risk considerations for insurers, see Section 4.

Risk type	Description	Example
Gap risk	A misalignment in repricing dates between financial assets and financial liabilities.	A bank has long-dated fixed-rate assets funded by short-term liabilities. An increase in rates could compress margins because the bank would pay higher interest in the future on the short-term liabilities when they reprice.
Basis risk	Inconsistent rate movements between reference rates – i.e. instruments tied to different reference rates move differently, resulting in earnings volatility. This can still occur with matched repricing periods.	A bank may have financial assets funded by financial liabilities, which are tied to different reference rates. For example, the Bank Bill Swap rate and the official cash rate set by the central bank.
Option risk	Embedded options in banking products alter expected cash flows under different interest rate scenarios, introducing further uncertainty. Whether certain embedded options are exercised may be influenced by changes in market interest rates.	A bank may have embedded options in financial instruments (e.g. loan prepayment features or early withdrawal rights on deposits).

2. Within a bank's statement of financial position, the 'banking book' comprises financial instruments such as cash and cash equivalents, loans to customers or other banks, investments in debt instruments, retail and commercial deposits, long-term borrowings through issued debt instruments and equity instruments. The banking book excludes trading assets and liabilities.

An entity typically monitors and manages its repricing risk at a portfolio level through a central treasury function in line with its RMS.

2.1.2 Formal RMA documentation

ED.7.1.7, BC35–BC37

An eligible entity opting to apply the RMA model would need to formally document how it will apply the model for each set of underlying portfolios that it separately manages for repricing risk. This documentation would need to be based on the entity's RMS and include the following.

Area	What to document
Repricing risk management	<p>How an entity manages this risk in accordance with its RMS, including information about the mitigated rate, the mitigated time horizon and the repricing risk limits.</p> <p>Information on how it determines the repricing risk to mitigate, including:</p> <ul style="list-style-type: none"> • the nature and characteristics of financial instruments included in the underlying portfolios; • the measures used to assess repricing risk and to quantify the NRRE; • the repricing time buckets used to manage repricing risk from the underlying portfolios; • the frequency with which it reassesses its NRRE; and • the approaches used to determine the expected repricing of the underlying portfolios.
Risk management objective	How an entity specifies its RMO.
Designated derivatives	How an entity identifies the designated derivatives used to mitigate its repricing risk.
Unexpected changes in the net repricing risk exposure	<p>How an entity captures the effects of unexpected changes in the NRRE, including how it:</p> <ul style="list-style-type: none"> • adjusts the benchmark derivatives to reflect unexpected changes in the NRRE; • assesses whether it has omitted to capture any effects of unexpected changes in the measurement of the RM adjustment; and • measures the present value of the NRRE at the reporting date.



Would the formal documentation requirements under the RMA model differ from those under current hedge accounting?

Yes. Under the new model, an entity would need to explain the methods and approaches it uses to mitigate repricing risk and to apply the RMA model, rather than identify specific amounts of repricing risk to be mitigated. This is because entities' repricing risk profile and their risk management activities change frequently. For example, an entity might include how it identifies and mitigates repricing risk, its RMO and how it captures unexpected changes in the NRRE. This may require input from the treasury, risk, and accounting and reporting functions.

This approach differs from current hedge documentation requirements, which are narrower and include identifying the hedged risk, the hedging instrument and specific amounts of hedged items, alongside how the hedge effectiveness will be measured.



Would an entity need to demonstrate an economic relationship between designated derivatives and benchmark derivatives?

ED.BC73

No. The IASB 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 RMA model. Therefore, they did not consider it necessary to include a specific requirement to demonstrate an economic relationship between the two.

Similarly, an entity would not need to demonstrate the effectiveness of its risk mitigation to apply the RMA model.



Would the concepts of cash flow and fair value hedge accounting under IFRS Accounting Standards continue to apply under the RMA model?

*ED.7.1.2–7.1.3,
B7.1.2–BC7.1.3, BC32,
BC65*

No. The RMA model would not allow entities to apply different models for fair value and cash flow hedges in the same way as under current hedge accounting requirements. Rather, the RMA model would enable entities to reflect how effective their risk mitigation activities are in reducing variability in fair values and/or cash flows.

2.2 Risk identification

ED.7.1.6, 7.1.7(a)–(b),
B7.1.6–B7.1.7

The RMS is established at the highest level at which an entity manages its repricing risk – e.g. at a group or individual entity level. Key components of the RMS, used in the RMA model, include the following.

Mitigated time horizon

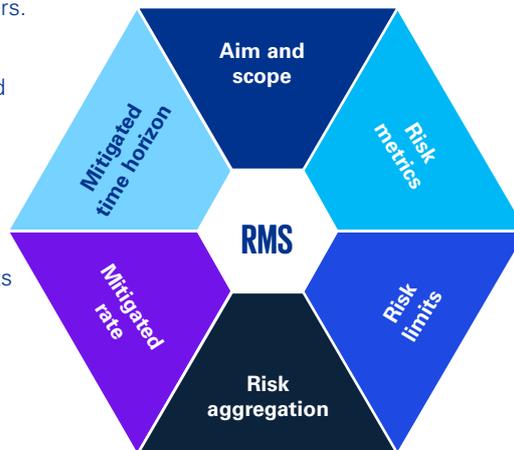
The period over which repricing risk is mitigated – e.g. five years.

Mitigated rate

The market interest rate based on which repricing risk is managed – e.g. 12-month Euribor.

Risk aggregation

The method used to aggregate financial instruments and transactions to manage repricing risk. Typically, a defined method is used to allocate cash flows to time periods based on expected rather than contractual repricing dates.



Aim and scope

A typical aim of the RMS is to reduce the volatility of net interest income (NII) or protect economic value of equity (EVE). Its scope identifies the nature and characteristics of financial instruments and transactions that give rise to repricing risk – e.g. a portfolio of loans to customers.

Risk metrics

Metrics used to quantify the entity's net repricing risk exposure – e.g. notional repricing gap. See [Appendix 3](#) for other common risk metrics.

Risk limits

The thresholds for levels of repricing risk an entity is willing to accept – e.g. a notional repricing gap of +/- 200,000.

ED.7.2.1, B7.2.1–B7.2.2

As part of the ALM, an entity identifies the portfolios of financial instruments and future transactions that generate repricing risk exposure. This defines the scope of an entity's RMS related to repricing risk. Common examples of financial instruments that generate repricing risk for banks include the following.

	 Demand deposits	 Loans to customers	 Borrowings and issued debt	 Equity instruments
Contractual features	<ul style="list-style-type: none"> • Callable on demand 	<ul style="list-style-type: none"> • Often fixed rate over the short to medium term • Reprice to a market rate at the end of the fixed-rate term • May contain early repayment options 	<ul style="list-style-type: none"> • Often long term, maturing between a 5- and 10-year period • Debt instruments subject to a variable rate plus a margin 	<ul style="list-style-type: none"> • May pay a discretionary dividend (e.g. Additional Tier 1 instruments)
Risk management treatment	Fixed interest rate liabilities <ul style="list-style-type: none"> • Typically considered longer term because of customer stickiness 	Financial assets <ul style="list-style-type: none"> • Typically modelled based on the portion of loans expected to prepay (i.e. reprice) 	Financial liabilities <ul style="list-style-type: none"> • Repricing risk occurs on the market interest rate reset dates 	Fixed-rate liabilities <ul style="list-style-type: none"> • Play a crucial role in an entity's repricing risk management, despite not bearing interest



What challenges might entities face in measuring repricing risk?

In measuring repricing risk, entities could face potential challenges when making assumptions. Examples include the following.

- **Demand deposits:** inappropriate modelling of how many deposits could reprice and over what period could distort risk profiles.
- **Loans to customers:** assessing when a loan might be prepaid may be challenging. Information about historical customer prepayments could be useful to address this.



What are the regulatory considerations for banks' interest rate risk management?

A bank considers interest rate risk in its banking book from a regulatory perspective based on the Basel Framework and local regulations. In particular, it follows Basel II (or Basel III in certain jurisdictions based on the implementation date) – a set of international banking regulations defined by the Basel Committee on Banking Supervision.

These regulations require interest rate risk to be considered for the Pillar 2 internal capital adequacy assessment, which may require banks to hold additional capital if necessary to cover material interest rate risk. Pillar 3 complements this by requiring the disclosure of, among other things, relevant risk information – e.g. interest rate risk exposures, measurement techniques and mitigation practices.

2.2.1

ED.72.1–72.10,
B72.1–B72.17

Net repricing risk exposure

Under the RMA model, an entity would need to determine the eligible items generating repricing risk to be included in the underlying portfolios – often referred to in aggregate as the NRRE.

In other words, the NRRE represents an entity’s net repricing risk position of eligible financial instruments and transactions.

Determining the NRRE comprises the following actions.



Identify the underlying portfolio

ED.72.1–72.4,
B72.1–B72.8

An entity would identify its eligible financial assets, financial liabilities and transactions exposed to repricing risk – i.e. its underlying portfolio.

The proposals specify the following eligible and non-eligible items.

Eligible items
Financial assets and financial liabilities: amortised cost
Debt financial assets: fair value through other comprehensive income (FVOCI)
<p>Future transactions: Eligible if they are one of the following:</p> <ul style="list-style-type: none"> • expected reinvestment or refinancing of eligible financial assets or financial liabilities in the underlying portfolio that is expected to occur at prevailing market interest rates; • unrecognised firm commitments; or • forecast transactions that are highly probable – e.g. a portion of loan offers that are: <ul style="list-style-type: none"> • made to current and future customers; • at a predetermined fixed rate and not yet finalised through a binding agreement; and • deemed highly probable to result in loan originations.
<p>Hedged exposures: Include financial instruments designated in hedging relationships under IFRS 9’s general hedge accounting requirements if the entire hedging relationship influences an entity’s exposure to repricing risk.</p>

Non-eligible items**Financial assets and financial liabilities: fair value through profit or loss (FVTPL)**

However, a derivative included in a hedged exposure would be eligible.

Equity instruments**Why would certain financial instruments be ineligible for inclusion under the RMA model?**

Under the RMA model, certain financial instruments would be ineligible for inclusion in the underlying portfolio.

Equity instruments

ED.BC49–BC50

Some entities consider equity instruments in their repricing risk management activities. Equity can be considered as a source of non-interest-bearing funding and, therefore, mimics a fixed-rate liability for risk management purposes. Despite this, equity would not be an eligible item under the RMA model. This is because equity is not directly exposed to changes in interest rates. The distribution of dividends and/or repayments of capital are accounted for in the statement of changes in equity, with no impact on NII.

Derivative instruments measured at FVTPL

*ED.BC47–BC48,
BC56–BC63*

Derivatives are measured at FVTPL and, therefore, are generally ineligible for inclusion in the underlying portfolio. This is because including derivatives would introduce leverage into the underlying portfolio and derivatives do not impact the NII calculated under the effective interest method. However, derivatives may be eligible to be included in the underlying portfolio if they are part of the hedged exposures as defined above.

Other financial instruments measured at FVTPL

ED.BC47–BC48

Other financial instruments measured at FVTPL are ineligible for inclusion in the underlying portfolio. This is because, being measured at FVTPL, there would be no accounting mismatch between these instruments and the risk mitigation derivatives requiring hedge accounting.

**Would the eligible items under the RMA model differ from those under the current hedge accounting requirements?**

*ED.7.2.1–7.2.4,
B7.2.1–B7.2.8,
IFRS 9.6.1.3,
6.3.1–6.3.4, 6.6.1*

Yes. Under current hedge accounting requirements (IAS 39 or IFRS 9), it is prohibited to include hedged items that do not qualify for hedge accounting, even though they may give rise to repricing risk exposures that an entity manages economically – e.g. core demand deposits. This creates the need for ‘proxy’ hedges or overlays (e.g. the EU carve-out). For example, many banks include core demand deposits in the NRRE they manage. However, they are not eligible hedged items under current hedge accounting requirements, unless applying the EU carve-out.

Under the RMA model, proxy hedging may no longer be necessary given the increased scope of eligible items within the NRRE – e.g. core demand deposits. However, certain financial instruments are ineligible for inclusion in the NRRE under the RMA model (see 2.2.1), which may still require proxy hedging – e.g. for ‘equity’ items.

Allocate the expected cash flows from the underlying portfolios to time buckets

ED.72.9–72.10,
B72.9–B72.12

After identifying the eligible underlying portfolio, an entity would allocate the expected cash flows of the items in the underlying portfolio into time buckets by considering their:

- contractual terms; and
- expected repricing dates.

This would allow an entity to manage its repricing risk across multiple time horizons.

If an item's contractual maturity does not match its expected repricing dates, then an entity would determine the expected repricing dates by considering:

- the item's contractual terms, including any embedded options (e.g. loan prepayment features or early withdrawal rights on deposits); and
- if appropriate, its expectation of when those embedded options would be exercised.

Estimating the expected cash flows of the underlying portfolio and allocating them into time buckets would require management to make assumptions and apply judgement, using reasonable and supportable information.

This may involve developing behavioural models that consider contractual terms of the items in the underlying portfolio, as well as market conditions, past customer behaviour and other relevant factors.

Judgement areas under the RMA model may include incorporating future transactions (e.g. expected reinvestment of financial assets and refinancing of financial liabilities) and determining whether forecast transactions are 'highly probable' on a portfolio basis.



Would an entity need to consider credit risk when allocating cash flows to time buckets?

It depends. The proposals do not specify whether an entity would need to consider credit risk when determining:

- whether credit-impaired financial assets are eligible for inclusion in the underlying portfolio under the RMA model; and
- how to allocate cash flows from those assets to time buckets.

In the absence of specific guidance, entities would normally follow their risk management practices when assessing the impact of credit risk on expected cash flows from financial assets included in their underlying portfolios. From a regulatory perspective, some jurisdictions explicitly require that credit risk is not factored into Interest Rate Risk in the Banking Book (IRRBB) assessments. As a result, the behavioural models used by banks to allocate cash flows to time buckets may be largely agnostic to credit risk.

However, some entities may exclude credit-impaired financial assets in their repricing risk profile if there is significant uncertainty around the realisation of contractual cash flows on those assets.

Measure the NRRE using the risk metric

ED.B7.2.13–B7.2.14,
BC65

The entity would measure its NRRE by applying the risk metric identified in its RMS (e.g. PV01, Δ NII or notional repricing gap³) to the expected cash flows of the underlying portfolio for each time bucket.



Could an entity use different risk metrics to measure the NRRE across different time buckets?

Yes. The RMA model would allow entities to use different risk metrics for different time buckets, if they are consistent with an entity's RMS. For example, an entity's RMS may prioritise reducing earnings volatility in certain time buckets, measured using Δ NII, and protecting EVE in other time buckets, measured using Δ EVE. However, an entity would use the same risk metric to measure the NRRE for all exposures within a specific time bucket.

Banks often use more than one risk metric for risk management purposes for the same time bucket. It is unclear under the current proposals how banks would determine the most appropriate risk metric for RMA purposes.

Using risk metrics to measure components of the RMA model would be a change from current hedge accounting requirements.



Would the current requirement for a hedged risk component to be separately identifiable and reliably measurable continue to apply under the RMA model?

ED.7.2.6, BC27–BC28,
IFRS 9.6.3.7(a)

Partially. The RMA model would require the NRRE to be reliably measurable and for it to be aggregated for each mitigated rate. The mitigated rate, as defined in an entity's RMS, reflects the rate driving the repricing risk of the underlying portfolio (e.g. Euribor, SONIA, SOFR) and serves as the anchor for measuring the effectiveness of an entity's risk mitigation activities. The RMA model would be applied at the level of each underlying portfolio with a single mitigated rate to ensure clarity and consistency.

Under current hedge accounting requirements, a hedged item's risk component may be designated if it is separately identifiable and reliably measurable. However, under the RMA model, the mitigated rate used would be consistent with the actual benchmark interest rate considered by an entity for risk management purposes. Therefore, the IASB concluded that it would not be appropriate to require the mitigated rate to be a separately identifiable risk component of the underlying portfolios.

The requirement to be reliably measurable would continue to apply under the RMA model. This would ensure that an entity could quantify, with sufficient precision, the effects of changes in the mitigated rate on its underlying portfolios and, ultimately, the RM adjustment in the statement of financial position.

3. For common risk metrics used by banks, see [Appendix 3](#).



Example 1 – Measuring the NRRE

Bank B issues 1 million of loans to customers at a fixed interest rate of 5.00% for five years, which is funded by a one-year deposit of 1 million at a fixed interest rate of 2.00%. B is eligible to, and chooses to, apply the RMA model.

B takes the following actions to determine the NRRE.

Action	Details
Identify the underlying portfolio	The loans to customers and deposit are financial assets and a financial liability respectively measured at amortised cost under IFRS 9. Therefore, they meet the eligibility criteria to be included in the underlying portfolio. B considers the loans and the deposit on a net basis for repricing risk management.
Allocate the expected cash flows of the underlying portfolio to time buckets	B forecasts the expected cash flows over a mitigated time horizon of five years in line with its RMS. Over the five-year period, B does not expect the loans to reprice but will refinance the deposit each year at the prevailing market interest rate. In other words, B is exposed to repricing risk from the start of Year 2 through to Year 5.
Measure the NRRE using the risk metric	Consistent with its RMS, B measures its NRRE using a Δ NII risk metric, expressed as a 100 basis point parallel shift in the mitigated rate for each time bucket. From the start of Year 2 through to Year 5, B is exposed to a Δ NII of 10,000 per each 100 basis point change in the mitigated rate.

Year	Loans to customers		Deposits		Notional repricing gap ⁴ A	NRRE Δ NII 100bp ⁵ B = A \times 1 / 100
	Principal amount	Fixed/variable	Principal amount	Fixed/variable		
1	1,000,000	Fixed	1,000,000	Fixed	-	-
2	1,000,000	Fixed	1,000,000	Variable	1,000,000	10,000
3	1,000,000	Fixed	1,000,000	Variable	1,000,000	10,000
4	1,000,000	Fixed	1,000,000	Variable	1,000,000	10,000
5	1,000,000	Fixed	1,000,000	Variable	1,000,000	10,000

- Notional repricing gap is calculated as the difference between the fixed and variable principal amounts. If the principal amounts of assets and liabilities are fixed and equal, then the notional repricing gap is zero.
- Interest expense on a 1,000,000 deposit paying 2.00% annual interest would be 20,000.

If the mitigated rate increased by 100 basis points to 3.00%, then annual interest expense would be 30,000 for each of Years 2 to 5.

In contrast, interest income on a 1,000,000 fixed-rate loan does not change based on market movements in the mitigated rate over the mitigated time horizon.

The change in the mitigated rate by 100 basis points results in a Δ NII of 10,000 (30,000 - 20,000) for each of Years 2 to 5.

2.3 Risk mitigation

ED.73.6, BC73

Once an entity has determined its NRRE, it would then need to mitigate that risk. It would enter into derivatives that bring the repricing risk within the limits set in its RMS.

ED.73.1

The derivatives used to mitigate repricing risk are referred to as designated derivatives under the RMA model.

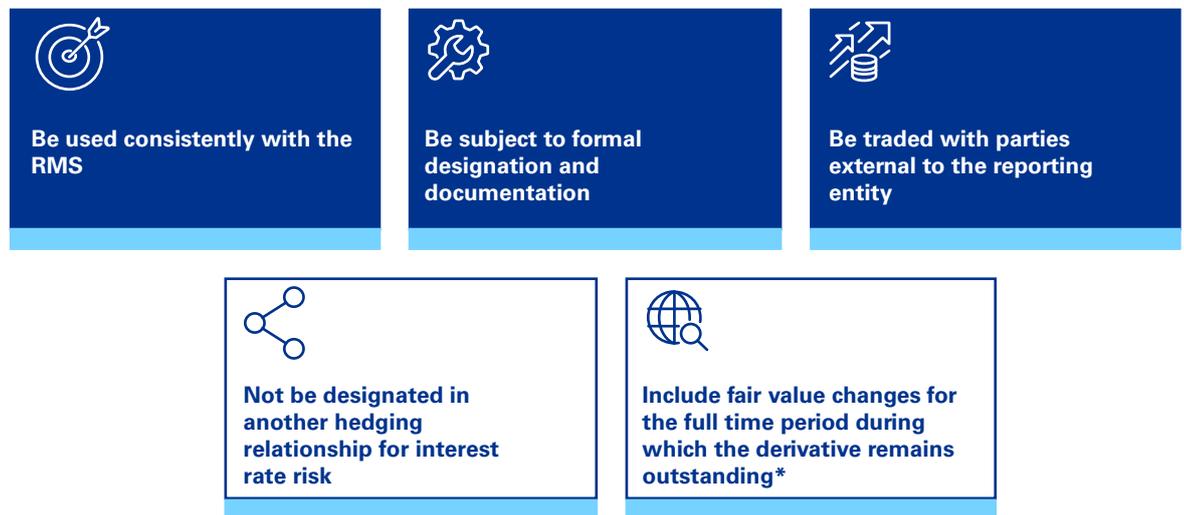
2.3.1 Designated derivatives

ED.74.3

Designated derivatives play an important role in the RMA model because they evidence how the entity manages its risks – i.e. by reducing the NRRE to within the risk limits.

ED.73.4–73.8

Under the RMA model, designated derivatives would need to meet the following criteria.



* The designated derivative may be a proportion of the notional amount of a derivative, but it cannot be for only a portion of the period during which it is outstanding.

ED.73.1–73.3, BC71

Entities can use various types of interest rate derivatives as designated derivatives, including those with a non-zero fair value at the time of designation (i.e. off-market derivatives). This includes:

- interest rate swaps – including basis swaps and forward-starting swaps;
- forward rate agreements;
- interest rate futures; and
- interest rate options – similar to the IFRS 9 general hedge accounting requirements, a net written option is not eligible to be a designated derivative. However, a net written option that offsets purchased options would be eligible to be included as a designated derivative if the combined effect is not that of a net written option (e.g. a zero-cost collar).

A derivative would not be eligible to be a designated derivative if its fair value changes are dominated by the effect of risks unrelated to changes in the mitigated rate – e.g. credit risk.

**Would the RMA model permit an entity to use options (i.e. non-linear derivatives) as designated derivatives?**

ED.BC71

Yes. Entities may face non-linear repricing risk within their underlying portfolios and use option derivatives to mitigate this risk.

A common example is pipeline risk in retail mortgage portfolios, when banks offer customers fixed-rate commitments before loan drawdown. Customers retain the option to accept the quoted rate or renegotiate if benchmark rates decline. These pipeline exposures are typically not recognised as financial assets in the statement of financial position until drawn down. Nevertheless, risk managers are required to address the interest rate risk and embedded optionality inherent in these offers.

To mitigate this risk, options (e.g. interest rate floors and swaptions) can provide a more effective hedge of optionality than linear derivatives (e.g. interest rate swaps). Despite this, banks have historically relied primarily on linear derivatives for hedging mortgage portfolios. This is because of the challenges in applying hedge accounting to non-linear derivatives under existing hedge accounting requirements (IAS 39 and IFRS 9), as well as higher costs and lower liquidity of these instruments.

However, recent market volatility has renewed interest in using interest rate caps and floors to manage optionality risk, though the existing hedge accounting limitations have remained a deterrent. The RMA model might offer an opportunity to incorporate non-linear derivatives as part of designated derivatives, but this could be complex and would require careful consideration during field testing.

2.3.2**Risk mitigation objective**

ED.74.1–74.4, B74.1

The RMO represents the extent to which an entity aims to mitigate the repricing risk by entering into designated derivatives. An entity determines the RMO for each time bucket across the mitigated time horizon, using the same risk metric it uses for the NRRE for that time bucket. The specified RMO cannot exceed the amount of NRRE in any time bucket.

Given the dynamic nature of the items in the underlying portfolio, entities manage the repricing risk dynamically – i.e. they frequently transact designated derivatives to mitigate it.

ED.74.4, B74.4, BC81

This means that under the RMA model, an entity would need to specify its RMO each time it transacts designated derivatives, which could be on a daily basis.

ED.74.4, BC82

Any change in the RMO would be applied prospectively – i.e. specifying revised RMOs does not affect RMOs specified by the entity in previous periods.

**Key points to note: Specifying the RMO**

ED.BC71

Purpose: an entity would perform the risk mitigation activities continuously throughout the reporting period. Therefore, it would need to specify a new RMO as it transacts the designated derivatives to mitigate its repricing exposure.

When to perform: throughout the period as the entity enters into new designated derivatives in line with its RMS. This could be on a daily or weekly basis.

Accounting entries: no accounting entries would be made for specifying the RMO itself.

Accounting entries for designated derivatives would be consistent with accounting entries for other derivatives. An entity would post accounting entries only at inception when it has entered into options (with net premium) or off-market derivatives.

Potential key focus areas: due to the high frequency of this activity, entities would need to consider:

- processes and controls; and
- documentation for entering into new designated derivatives, specifying new RMOs and constructing new benchmark derivatives.



Example 1A – Specifying the RMO at designation

Continuing [Example 1](#), Bank B's RMS specified a risk limit of 2,000 Δ NII per 100 basis points change in the mitigated rate in each time bucket. To achieve this, B enters into a derivative, a forward-starting interest rate swap (IRS), with the following features.

Feature	Details
Notional amount	800,000
Duration	4 years
Terms	Pay fixed interest rate of 2.00% and receive SOFR rate
Effective date	End of Year 1

The IRS would be an eligible designated derivative under the RMA model.

By entering into the IRS, B has transformed the NRRE profile (Δ NII for 100 basis points change in the mitigated rate) as follows.

Year	NRRE	Effect of IRS	RMO	NRRE post mitigation
	Δ NII A	Δ NII B	Δ NII C = B	Δ NII D = B - A
1	-	-	-	-
2	10,000	8,000	8,000	2,000
3	10,000	8,000	8,000	2,000
4	10,000	8,000	8,000	2,000
5	10,000	8,000	8,000	2,000

The effect of the IRS above shows changes in the net interest receivable/payable in each period for a 100 basis points change in the mitigated rate.

B remains exposed to repricing risk of 2,000 per change in the mitigated rate by 100 basis points, which is within the risk limit for the 5-year period as set out in its RMS. Given the RMO is informed by the designated derivatives, it is specified to be 8,000 (Δ NII for 100 basis points change in the mitigated rate) from the start of Year 2 to Year 5.



Example 2 – Re-specifying the RMO

Entity H, with NRRE exposure of 100 units, enters into designated derivatives that mitigate 75 units of repricing risk. To be consistent with its RMS and the related risk management, H needs to specify an RMO of 75 units.

H then enters into new designated derivatives that mitigate a further five units of repricing risk. This reflects the repricing risk that H is seeking to mitigate under its RMS. H specifies its new RMO as 80 units.

The change in the RMO from 75 units to 80 units is applied prospectively and does not affect the RMO of 75 units and the related accounting in previous periods.

3 Accounting under the RMA model

The new model introduces a risk mitigation adjustment, which would be assessed at each reporting date for any excess.

Section 2 discussed an entity's risk management activities and how they would translate into elements in the RMA model. This section deals with how those elements would be reflected in the financial statements.

3.1 Benchmark derivatives

So far, an entity would have identified the NRRE, entered into designated derivatives and specified the RMO in line with its risk management activities under its RMS.

ED.7.4.5, B7.4.7

The RMO is an absolute amount of repricing risk and does not represent identifiable financial instruments or carrying amounts. For an entity to measure how successfully it has mitigated repricing risk through designated derivatives, the RMO would need to be translated to a form that allows the entity to compare value changes in the RMO and the designated derivatives. For this reason, the RMA model would require an entity to construct benchmark derivatives.

3.1.1 The role of benchmark derivatives

ED.B7.4.8, BC84

Benchmark derivatives are similar to hypothetical derivatives used under the general hedge accounting requirements in IFRS 9 and IAS 39. They are a mathematical expedient to measure the timing and amount of repricing risk specified in the RMO. Constructing them would require an entity to match all of the RMO's critical terms (i.e. benchmark derivatives would need to include only economic features that are present in the RMO).

ED.7.4.5, B7.4.9

An entity would construct benchmark derivatives on a present value basis (i.e. including the time value of money), which would always be set with on-market terms (i.e. a zero fair value derivative at its inception). To achieve this, constructing the benchmark derivatives would need to be based on the mitigated rate identified in the RMS.



Could differences arise between designated derivatives and benchmark derivatives when optionality exists in the underlying portfolio or designated derivatives?

Yes. The underlying portfolios may include financial instruments with embedded options – e.g. prepayment options on loans. Under the RMA model, the impact of these options would be incorporated through projections of expected cash flows and behavioural assumptions, rather than by valuing the options as if they were standalone derivatives. The proposals do not provide specific guidance on how using option derivatives affect the construction of benchmark derivatives. This may mean that although the designated derivatives used for risk mitigation may include option-based instruments, both the measurement of the underlying portfolio's repricing risk and the construction of the benchmark derivatives would rely on projections of expected cash flows rather than option valuation models. As a result, differences may arise between designated derivatives and benchmark derivatives. Entities would need to be aware of these potential sources of mismatch when applying the RMA model and consider them in their risk management and reporting processes.

**Example 3 – Constructing the benchmark derivatives**

Bank C operates in the Eurozone and holds financial assets and financial liabilities that generate repricing risk, which C manages in line with its RMS. The RMS and underlying policies for repricing risk management activities include the following.

Area	Details
Scope	Identified financial assets and financial liabilities within C's banking book that generate repricing risk
Aim	To stabilise NII over the mitigated time horizon
Mitigated rate	12-month Euribor
Risk metric	Repricing maturity gap
Acceptable risk limits	Repricing maturity gap within the range of +/- 200,000
Mitigated time horizon	Five years

C uses a defined method to allocate cash flows to time periods based on expected repricing dates.

C evaluates the financial assets and financial liabilities in its underlying portfolio and concludes that they meet the eligibility criteria (see 2.2.1). These include the following.

Financial assets		Financial liabilities	
Terms	Amounts	Terms	Amounts
FA1 10-year bond at a fixed interest rate of 3.00%	200,000	FL1 Two-year variable rate financial liability with 12-month Euribor as the underlying rate	500,000
FA2 Four-year mortgage at a fixed interest rate of 5.00%	1,000,000	FL2 Non-interest-bearing core demand deposits expected to be entirely rate insensitive for four years	600,000
Total financial assets	1,200,000	Total financial liabilities	1,100,000

The gap between the financial assets and financial liabilities of 100,000 is funded by equity.

C measures its NRRE by applying the risk metric of the repricing maturity gap to eligible items in its underlying portfolio. The NRRE for each time bucket is shown in the table below.

Net repricing risk as at 1 January 20X1

	20X1	20X2	20X3	20X4	20X5
Fixed rate exposures					
FA1	200,000	200,000	200,000	200,000	200,000
FA2	1,000,000	1,000,000	1,000,000	1,000,000	-
FL2	(600,000)	(600,000)	(600,000)	(600,000)	-
Total fixed rate exposures	600,000	600,000	600,000	600,000	200,000
Net repricing risk exposure (variability in cash flows)					
FL1	(500,000)	(500,000)	-	-	-
Refinancing of FL1	-	-	(500,000)	(500,000)	(500,000)
Reinvestment of FA2	-	-	-	-	1,000,000
Refinancing of FL2	-	-	-	-	(600,000)
Total net repricing risk exposure	(500,000)	(500,000)	(500,000)	(500,000)	(100,000)

C is exposed to repricing risk on the expected repricing dates of its financial instruments.

To achieve its RMS, C needs to reduce the total notional repricing gap in Years 1 to 4 within the risk limits of +/- 200,000.

C measured the NRRE to be 500,000 in each time bucket across the first four years of the five-year mitigated time horizon. This means that in each time bucket over the four years, the NRRE exceeds the risk limits by 300,000.

To mitigate the repricing risk within the risk limits and fulfil its RMS to stabilise NII, C formally designates and documents a 300,000 four-year IRS, under which C pays a fixed rate and receives 12-month Euribor variable rate.

In line with the notional IRS amount, C specifies its RMO as 300,000 from Years 1 to 4. The IRS meets the requirements of a designated derivative (see 2.3.1) such that C is now able to mitigate its cash flow variability, triggered by its exposure to net repricing risk, to within its risk limits.

C then constructs an IRS as a benchmark derivative that matches all the critical terms of its RMO (e.g. timing and amount of repricing risk) with an initial fair value of zero – i.e. an IRS with a notional amount of 300,000 and a four-year term, under which C pays 12-month Euribor and receives a fixed rate.

3.1.2

ED.74.6–74.7,
B74.10–B74.14

Adjusting benchmark derivatives for unexpected changes

An entity would construct benchmark derivatives based on its estimates of when and by how much the eligible items within the underlying portfolio are expected to reprice. If there are unexpected changes – e.g. items reprice earlier or later than initially expected – then this could result in the NRRE being below the specified RMO. This would suggest that an entity's designated derivatives are mitigating more repricing risk than that to which the entity is actually exposed – i.e. the entity is synthetically creating a risk position that is not present in the NRRE.

When the NRRE falls below the specified RMO, the entity would need to adjust the benchmark derivatives to capture the effects of the unexpected changes.

The RMA model does not prescribe a particular method for estimating the effect of the unexpected changes on the benchmark derivatives. An entity would be required to choose an approach based on reasonable and supportable information – e.g. the characteristics and interest rate structures of eligible items in the underlying portfolios affected and the timing of the unexpected changes.

ED.B74.14, BC87

However, adjusting the benchmark derivatives to reflect unexpected changes in the underlying portfolios could pose significant operational challenges. Tracking all relevant changes promptly across often large and complex portfolios may require enhancements to systems, processes and controls. Some entities may not have reasonable and supportable information that would allow them to capture the effect of unexpected changes without incurring undue cost or effort. In these cases, the RMA model would allow the entity to deem the unexpected changes to have occurred at the time when the RMO was last specified. For example, if an entity specifies a new RMO on a monthly basis, then it may assume that any unexpected changes occurred at the beginning of that month.



Key points to note: Adjusting benchmark derivatives for unexpected changes

Purpose: if there are unexpected changes during the period that impact the underlying portfolio and cause the amount of NRRE to be below the specified RMO, then an adjustment would be required.

When to perform: throughout the period when there is an unexpected change to the underlying portfolio using reasonable and supportable information. In the absence of reasonable and supportable information, an entity could opt to deem the changes to have occurred when it last specified its RMO.

Accounting entries: none.

Potential key focus area: entities would need to determine a process for tracking unexpected changes in the underlying portfolios.

When adjusting benchmark derivatives, entities would need to:

- revise the cash flow expectations of the underlying portfolio; and
- decide whether assumptions made at designation remain appropriate, depending on the nature and context of the unexpected change.

3.2

ED.74.8

Risk mitigation adjustment

Under the RMA model, the amount of repricing risk successfully mitigated by an entity through using designated derivatives would be represented by the RM adjustment.

An entity would calculate the RM adjustment as the lower of (on an absolute value basis):

- the cumulative gain or loss on the designated derivatives from the date the derivatives were designated; and
- the cumulative change in fair value (present value) of the benchmark derivatives.

ED.7.4.8, BC94

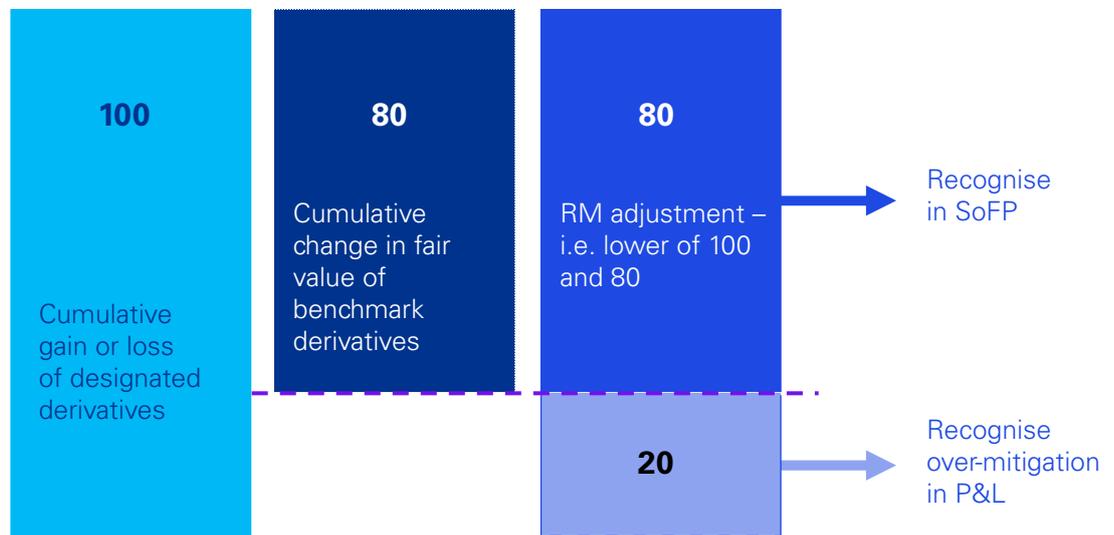
The 'lower-of' calculation is a similar concept to that in the existing cash flow hedge accounting requirements.

ED.7.4.10, B7.4.15, B7.4.17

The RM adjustment would be recognised in the statement of financial position. The amount accumulated as the RM adjustment would be recognised in profit or loss in the reporting periods during which the repricing differences arising from the financial instruments in the underlying portfolios affect profit or loss. An entity could use the accrual profiles of the benchmark derivatives to determine the appropriate timing for recognising the RM adjustment in profit or loss.

ED.7.4.9

If the cumulative gain or loss on the designated derivatives exceeds the cumulative change in the fair value (present value) of the benchmark derivatives, then the excess would be recognised in profit or loss immediately.



Would the RM adjustment recognised in the statement of financial position be considered as either an asset or a liability?

ED.BC90

No. The RM adjustment could be either a debit or a credit balance in the statement of financial position. However, it would be neither an asset nor a liability under the IASB's *Conceptual Framework for Financial Reporting* because it does not represent rights or obligations. Instead, it is an accounting adjustment designed to reflect the economic effect of RMA.

It remains unclear how the RM adjustment would be treated for regulatory capital purposes – e.g. whether a recognised debit balance of the RM adjustment would form part of the risk-weighted assets.

**Key points to note: RM adjustment**

Purpose: the measurement of the repricing risk mitigated by an entity's designated derivatives that is deferred in the statement of financial position for future release in profit or loss to match the profit or loss impact of the underlying portfolio.

When to perform: at a minimum, at each reporting date. Entities may want to remeasure it more frequently (e.g. monthly).

Accounting entries: an entity would recognise the RM adjustment in the statement of financial position. The remaining change in fair value of designated derivatives would be recognised in profit or loss.

Potential key focus area: entities would need to determine the fair value of the benchmark and designated derivatives at the same time as measuring the RM adjustment.

**Example 3A – Calculating the RM adjustment**

Continuing [Example 3](#), Bank C calculates the RM adjustment using the 'lower-of' assessment.

At the end of Year 1, there was a parallel downward shift of 300 basis points in the yield curve of the mitigated market interest rate. This resulted in cumulative changes to the fair value of the designated derivative and the benchmark derivative at the end of Year 1 as follows.

Designated derivative	Benchmark derivative
Loss: (24,898)	Positive fair value change: 24,898

There has been no change in the RMO and no unexpected changes affecting the NRRE during Year 1; therefore, the designated derivative successfully mitigates the repricing risk represented by the benchmark derivative at the end of Year 1.

C recognises a debit balance of 24,898 in the statement of financial position at the end of Year 1, which is its RM adjustment under the 'lower-of' calculation. It also recognises a derivative liability of 24,898.

The related journal entries and impact on the financial statements at the end of Year 1 are illustrated in [Appendix 4](#).

3.3 RM adjustment excess

[ED.74.11–74.12](#),
[B74.18–B74.19](#),
[BC104–BC105](#)

At each reporting date, an entity would need to assess whether there is an indication that the RM adjustment recognised in its statement of financial position might not be realised in full over the mitigated time horizon. This situation may arise when there are unexpected changes in the entity's NRRE during the reporting period that are not fully captured through the adjustments made to the benchmark derivatives. If such an indication exists, then the entity would need to assess whether the amount recognised as the RM adjustment exceeds the present value of the NRRE at the reporting date.

[ED.B74.19](#),
[BC101–BC105](#)

The RMA model would require an RM adjustment excess assessment because of the potential simplification in adjusting the benchmark derivatives for the effect of these unexpected changes. This assessment serves as a backstop to ensure that the RM adjustment remains a reasonable representation of the expected effects of repricing risk from the underlying portfolios over the mitigated time horizon.

ED.7.4.14

The excess RM adjustment amount, if any, would be recognised in profit or loss immediately and would not be reversed in future periods.

ED.7.4.13, B7.4.20

The present value of the NRRE is the theoretical maximum amount the RM adjustment would have been if the entity had fully mitigated the NRRE at the reporting date. An entity would calculate the present value of the NRRE using the financial assets, financial liabilities and future transactions within the underlying portfolio at the reporting date.



Would an entity consider its RMO in determining the present value of the NRRE at the reporting date?

No. An entity would determine the present value of the NRRE by calculating the present value of all expected cash flows within the underlying portfolio over the mitigated time horizon. This approach would apply even if the entity's RMO was intended to cover less than the full exposure of its underlying portfolio.



Would entities be required to perform an RM adjustment excess assessment at each reporting date in all circumstances?

No. In developing the RMA model, the IASB noted stakeholders' feedback that timely tracking of unexpected changes in the underlying portfolios is often impracticable due to difficulties in monitoring movements within them. To address this, entities would be permitted to assume that these changes occur on the day the RMO was last specified. However, stakeholders also raised concerns that if an entity were to adjust the benchmark derivatives as if unexpected changes to the NRRE had occurred at the date the RMO was last specified, then it may not capture the full effects of all unexpected changes on the NRRE. Accordingly, the IASB introduced the assessment of the RM adjustment at each reporting date as a reasonableness test.

In contrast, if an entity had tracked and continuously adjusted the benchmark derivatives for unexpected changes in current and previous periods, then it might expect to realise the RM adjustment in full. In these cases, the entity might not need to assess the RM adjustment. Similarly, some entities might not aim to mitigate the NRRE in full and may set the RMO at a level well below the NRRE. If the unexpected changes are not significant, then an entity might expect to realise the RM adjustment in full without performing an additional assessment.

ED.7.4.11–7.4.12,
B7.4.18–B7.4.19,
BC101–BC110

Would a specific approach be required in determining the present value of the NRRE?

No. The proposals allow various approaches, provided that they are based on reasonable and supportable information.

Any valuation technique used to determine the present value of the NRRE would need to reflect the present value of the expected cash flows from the underlying portfolios at the reporting date, discounted at the mitigated rate.

To assess the RM adjustment, an entity would first consider what the balance would be if it had fully mitigated the NRRE at the reporting date. The IASB would not require entities to construct a theoretical benchmark derivative when calculating the present value of the NRRE. Entities could adopt a simpler approach, but this approach would not simply involve calculating the present value of all the items in the underlying portfolios. Instead, it might involve the following.

ED.B7.4.21, BC110

- **Step 1:** Calculate the present value of fixed-rate instruments in the underlying portfolios.
- **Step 2:** If there are mismatches in notional amounts of fixed-rate and variable-rate instruments, then adjust the result in Step 1 by determining the effects of risk mitigation on variable-rate instruments.

The IASB noted that many entities have methodologies in place to determine the effects of risk mitigation on variable-rate instruments. Measuring the RM adjustment excess may involve significant data gathering, modelling and ongoing monitoring.



Could the RM adjustment excess result in a gain or loss, and under what circumstances might it result in a gain?

ED.B7.4.22

Yes. The RM adjustment could be either a debit or a credit balance. A debit balance would typically arise when the cumulative change in fair value of the designated derivatives is a loss, which an entity would recognise based on the lower of:

- the loss on the designated derivatives; and
- the cumulative change in the fair value of the benchmark derivatives.

Conversely, a credit balance would typically arise when the cumulative change in fair value of the designated derivatives is a gain, which an entity would recognise based on the lower of:

- the gain on the designated derivatives; and
- the cumulative change in the fair value of the benchmark derivatives.

On this basis, the RM adjustment excess recognised in profit or loss could be either a loss or a gain. If the RM adjustment is a credit balance and the excess is written down, then this results in a gain. Conversely, if the RM adjustment is a debit balance and the excess is written down, then this results in a loss.



Would the accounting for the remaining RM adjustment balance change after recognising any RM adjustment excess in profit or loss?

ED.B7.4.17, B7.4.23,
BC112

Yes. An entity could use the accrual profiles of the benchmark derivatives in determining when to recognise the amount accumulated as the RM adjustment in profit or loss (see [Section 3.2](#)). This is on the basis that the benchmark derivatives represent the timing and amount of the mitigated repricing risk. However, once an entity would write down the RM adjustment and recognise the RM adjustment excess in profit or loss, the remaining RM adjustment would no longer have the same relationship with the benchmark derivatives. The entity would then need to adjust the recognition of the RM adjustment in profit or loss in future periods. The RMA model proposes that this adjustment would be made on a systematic and rational basis, which could include a straight-line basis.

**Key points to note: RM adjustment excess**

Purpose: a forward-looking assessment that aims to capture the effect of unexpected changes in the underlying portfolio that cause the RM adjustment to exceed what an entity would be able to realise against the repricing risk within the NRRE at the reporting date.

When to perform: an entity would assess at each reporting date whether there is an indication of excess.

Accounting entries: reducing the RM adjustment recognised in the statement of financial position with a corresponding gain or loss recognised in profit or loss.

Potential key focus areas: entities would need to determine:

- whether any indicators trigger an assessment of the RM adjustment; and
- the approach to calculating the present value of the NRRE at the reporting date.

**Example 3B – Calculating the present value of the NRRE (based on Illustrative Example 27 in the ED)**

Continuing [Example 3A](#), at the reporting date Bank C assesses whether there is an indication that the RM adjustment would not be fully realised over the mitigated time horizon. In this example, there have been no unexpected changes. C concludes that there is no indication of an RM adjustment excess.

However, if there were indicators (e.g. if C had experienced unexpected prepayments), then it would calculate the RM adjustment excess. Various approaches may be acceptable. C adopts the following approach.

Estimate the present value of the NRRE

- **Step 1:** C calculates the present value of fixed-rate instruments.
- **Step 2:** C reflects the effects of risk mitigation on variable-rate instruments in the NRRE by reducing the present value calculated in Step 1 (because there are more fixed-rate than variable-rate instruments).

The expected cash flows from the NRRE are discounted at the mitigated rate to calculate the present value of the NRRE.

Compare the RM adjustment to the present value of the NRRE

If the RM adjustment exceeds the present value of the NRRE, then C recognises the excess immediately in profit or loss and does not reverse it in future periods.

Modifying the fact pattern, C undertakes a strategic review of its operations and, at 31 December 20X1, disposes of 60% of FA1 with a notional amount of 120,000. C places the proceeds of 100,000 on deposit with the central bank, earning interest at a rate linked to 12-month Euribor.

ED.IE220–IE230

	20X2	20X3	20X4	20X5
Fixed rate exposures				
FA1	80,000	80,000	80,000	80,000
FA2	1,000,000	1,000,000	1,000,000	-
FL2	(600,000)	(600,000)	(600,000)	-
Total fixed rate exposures	480,000	480,000	480,000	80,000
Net repricing risk exposure (variability in cash flows)				
FL1	(500,000)	-	-	-
Refinancing of FL1	-	(500,000)	(500,000)	(500,000)
Reinvestment of FA2	-	-	-	1,000,000
Refinancing of FL2	-	-	-	(600,000)
Deposit in the central bank	100,000	100,000	100,000	100,000
Total net repricing risk exposure	(400,000)	(400,000)	(400,000)	-

Following this transaction, C identifies indicators that the RM adjustment recognised at the reporting date may not be fully realised over the mitigated time horizon. This assessment is based on a significant and unexpected change in the underlying portfolio as a result of the sale of 60% of FA1. In addition, there are limitations in C's systems and processes that prevent full adjustment of benchmark derivatives for the effect of this change.

To determine whether there is an RM adjustment excess, C compares the RM adjustment to the present value of the NRRE at the reporting date. To do this, C first calculates the present value of fixed-rate financial instruments and then incorporates an adjustment to reflect the difference in notional amounts of fixed- and variable-rate instruments. This adjustment is implemented through a replicating portfolio that simulates how the excess variable-rate items would amortise over time. By doing so, the complex variable rate reset effect is transformed into cash flows that can be discounted.

	20X2	20X3	20X4	20X5
Total fixed rate exposures	480,000	480,000	480,000	80,000
Total net repricing risk exposure (variable rate)	(400,000)	(400,000)	(400,000)	-
Adjustment for the difference between fixed and variable rate instruments (replicating portfolio)	(80,000)	(64,000)	(48,000)	-

C then determines the NRRE to be used for the present value calculation as follows.

	20X2	20X3	20X4	20X5
Total fixed rate exposures for PV calculation	480,000	480,000	480,000	80,000
Adjustment for the difference between fixed and variable rate instruments (replicating portfolio)	(80,000)	(64,000)	(48,000)	-
NRRE for PV calculation	400,000	416,000	432,000	80,000

3.4 Discontinuing the RMA model

ED.75.1,
 BC120–BC121

Entities would be unable to voluntarily discontinue the RMA model. They would also not be permitted to voluntarily:

- remove items from the underlying portfolio included in the NRRE when these items continue to meet the qualifying criteria; or
- de-designate a designated derivative.

ED.75.1–75.2, B75.2,
 B75.4, BC117–BC119

An entity would prospectively discontinue applying the RMA model only when there has been a change to the RMS – i.e. in those circumstances when continuing to apply the model would no longer be consistent with the entity’s RMS. Changes to an entity’s RMS are expected to be the result of external or internal factors that impact the entity’s operations and are demonstrable to internal and external stakeholders. Consequently, these changes are expected to be infrequent.

It is important to distinguish between changes to the RMS and changes in an entity’s risk management activities. Changes in the latter do not result in discontinuation of the RMA model.

ED.75.3,
 BC122–BC123

When an entity discontinues the RMA model, the RM adjustment remaining in the statement of financial position at the point of discontinuation would be recognised in profit or loss:

- in the same periods during which the repricing differences arising from the financial instruments in the underlying portfolios affect profit or loss;
- on another systematic or rational basis (e.g. straight-line), if the repricing differences from the financial instruments in the underlying portfolios are expected to continue to affect profit or loss; or
- immediately, if the repricing differences from the financial instruments in the underlying portfolio are no longer expected to affect profit or loss.



What are examples of changes to the RMS?

Examples of changes to the RMS that would trigger discontinuation of the RMA model, and other changes that do not reflect changes to the RMS include the following.

Change to the RMS

Changing the level at which repricing risk is mitigated – e.g. from group level to a subsidiary level.

Changes to the:

- mitigated time horizon;
- aim of the strategy and related risk metrics – e.g. prioritising sensitivity from changes to NII from previously prioritising sensitivity to EVE changes; and
- mitigated rate(s).

Not a change to the RMS

Changes to the:

- RMO;
- risk limits;
- underlying portfolio included in the NRRE; and
- designated derivatives.

ED.B75.3–B75.4,
 BC119

3.5 Transition to the RMA model

*ED.C1.16–C1.17,
BC128, BC133*

If an entity currently applies IAS 39 or IFRS 9 hedge accounting, then it could choose to apply the RMA model if it meets the eligibility criteria. However, the IASB intends to withdraw IAS 39 such that entities would no longer be able to apply IAS 39 hedge accounting, including the portfolio fair value hedging for interest rate risk. Therefore, the cessation of IAS 39 hedge accounting would not be optional.

There would be different transition options depending on an entity's current hedge accounting elections.

Currently applying IAS 39 hedge accounting requirements

*ED.C1.17,
C2.56–C2.57,
BC133–BC136*

Following the introduction of the RMA model, hedge accounting under IAS 39 may no longer be permitted. In this case, an entity would discontinue all of its IAS 39 hedging relationships. For discontinued IAS 39 fair value hedging relationships, the entity would amortise the hedge basis adjustment over the remaining term of the hedged items using a revised effective interest rate. However, if it would be impractical to do this, then the entity would be allowed to use a systematic or rational method (e.g. the straight-line method). For discontinued IAS 39 cash flow hedging relationships, the entity would follow the guidance in paragraph 6.5.12 of IFRS 9 to reclassify the cash flow hedge reserve balance.

On ceasing to apply IAS 39, entities could choose one or more of the following prospectively:

- apply the new RMA model (subject to meeting the relevant eligibility requirements – see [Section 2.1](#));
- apply the general hedge accounting requirements under IFRS 9; or
- discontinue hedge accounting.

Currently applying IFRS 9 general hedge accounting requirements

Entities currently applying IFRS 9 general hedge accounting requirements would be able to choose to prospectively apply the RMA model if they meet the relevant eligibility requirements.

*ED.C2.54, C2.58,
BC137–BC139*

On transitioning to the RMA model, entities would be permitted to discontinue IFRS 9 general hedge financial instruments if those instruments are eligible to be included in the underlying portfolio in the RMA model (see [2.2.1](#)).

Currently not applying hedge accounting

ED.C2.54

Entities currently not applying hedge accounting would be able to choose to prospectively apply the RMA model if they meet the relevant eligibility requirements.

ED.C2.59–C2.60

Entities would be permitted to revoke their previous designation of financial assets or financial liabilities as measured at FVTPL if those assets or liabilities would be included in underlying portfolios for the purposes of applying RMA.

4 Impact for insurers

Insurers could face specific challenges and would need to reflect on where interest rate volatility arises before engaging with the proposed RMA model.

The IASB has explicitly invited insurers to provide feedback on whether the proposals could be applied by insurers, or whether amendments are required. However, many insurers are only just beginning to explore how the RMA model could work for them. Insurers need to first consider how the effect of interest rate risk is reflected in their financial statements before engaging with the proposals.

There is no single ‘insurer view’ because outcomes depend on an insurer’s products, ALM strategy, and its IFRS 17 *Insurance Contracts* and IFRS 9 accounting choices. The potential impacts of the proposals could be significant because interest rate risk management is central to insurers’ ALM, particularly for long-duration business.

4.1 Key impacts and considerations

The impacts of these proposals for insurers may technically be **similar to those for banks** (see [Section 1.1](#)); aspects of navigating the RMA model may also be similar for insurers (see [Section 1.3](#)). However, insurers face specific challenges in assessing the suitability of the RMA model because the proposals were not written primarily with insurers in mind. As a result, insurers need to evaluate the proposals holistically and consider whether amendments, or even a dedicated insurer-focused solution, would better reflect how they manage repricing risk. Significant insurer-specific considerations include the following.

Area	Questions for insurers to consider
Risk management strategy (see Sections 2.1 and 4.2)	
Interaction with IFRS 17 measurement models and accounting policy choices	<p>Should the IASB reassess existing accounting requirements and tools used by insurers (e.g. IFRS 9 general hedge accounting and/or the IFRS 17 risk mitigation option) when considering whether the RMA model is suitable for insurers?</p> <p>Should the IASB amend the RMA proposals for insurers or start a separate (sub)project to tailor the RMA proposals to insurers’ ALM and financial reporting profiles?</p>
Risk identification (see Sections 2.2 and 4.3)	
Scope of the underlying portfolio	Which of an insurer’s assets and liabilities should be in scope to quantify NRRE (e.g. should all (re)insurance contract assets and liabilities be included in the underlying portfolio, or should some be included as eligible mitigating instruments)?
Risk mitigation (see Sections 2.3 and 4.4)	
Which instruments can be used to mitigate the NRRE	Which instruments should be permitted to mitigate the NRRE under the RMA proposals? For example, should the proposals be broader than interest rate derivatives as designated derivatives – i.e. allow certain reinsurance contracts or other instruments to be treated as risk mitigating instruments?

Area	Questions for insurers to consider
RM adjustment (see Sections 2.2 and 4.5)	
Potential mismatches between other comprehensive income (OCI) and the proposed RM adjustment	<p>Would a significant mismatch arise between amounts recognised in OCI (and accumulated in equity) and the proposed RM adjustment if:</p> <ul style="list-style-type: none"> • (re)insurance contracts were eligible for inclusion within underlying portfolios; and • an insurer applies the OCI option under IFRS 17 to disaggregate insurance finance income or expense (IFIE)?

Withdrawal of IAS 39 hedge accounting

Once the proposals are finalised, insurers would no longer be permitted to apply hedge accounting under IAS 39. Without any changes to the RMA proposals (most notably to include insurance liabilities in the scope of underlying portfolios), insurers would be unable to apply either the RMA model or IAS 39 hedge accounting. This issue is particularly relevant for insurers (including those within banking groups) that currently rely on IAS 39 hedge accounting, including macro or portfolio approaches, under the IFRS 9 accounting policy choice.

On ceasing to apply IAS 39, insurers would need to transition to an alternative approach – i.e. either applying the RMA model (when eligibility criteria are met), applying the general hedge accounting requirements in IFRS 9, or discontinuing hedge accounting altogether.

As a result, insurers may need to assess the implications of IAS 39 withdrawal, irrespective of whether they expect to apply the RMA model. If a separate RMA (sub)project for insurers were to be initiated, respondents may also wish to comment on whether IAS 39 hedge accounting should be permitted to continue on an interim basis, given its operational significance for some insurers.

4.2 Risk management strategy

When determining the extent of interest rate risk exposure, insurers consider how insurance contracts are accounted for under IFRS 17, the features of insurance contracts and the type of insurance products issued.

Interest rate exposures may differ for insurers depending on the type of insurance products sold. For example, interest rate risk exposure is likely to be higher for an insurer that sells long-term life annuities than for one that sells short-term and short-tail property insurance.

Interest rate risk exposure may arise from the terms, conditions or features of insurance contracts. For example, some long-term insurance contracts contain minimum guaranteed rates of return to the policyholder. For these insurance contracts, the insurer is exposed to a decrease in interest rates because it remains contractually obliged to provide the minimum guaranteed rate of return to the policyholder, even though it is unable to reprice the insurance contract. Repricing risk would arise when the insurer does not have an equally long-term fixed-rate asset.

An insurer may also be exposed to a risk of increased interest rates on insurance contracts with a surrender option due to policyholder behaviour. This is because, when interest rates are increasing, policyholders may be inclined to exercise surrender options and look for alternative, higher yielding products. Repricing risk would arise if the insurer had invested in fixed-rate assets matching the originally expected duration of the insurance contracts.

How repricing risk shows up in an insurer’s financial statements reflects a complex interaction between IFRS 17 and IFRS 9 requirements, accounting choices and management judgement. The sections below explain how repricing risk is reflected across the three IFRS 17 measurement models and under key accounting policy decisions. This allows insurers to pinpoint where interest rate volatility shows up in their financial statements, before evaluating the RMA proposals.

4.2.1 Interaction with IFRS 17 measurement models and accounting policy choices

The extent to which interest rate risk is reflected in insurers’ financial statements is affected by the IFRS 17 measurement model applied – i.e. the general measurement model (GMM), premium allocation approach (PAA) or variable fee approach (VFA).

The interest rate exposure on insurance contracts is reflected in an insurer’s financial statements through discounting of fulfilment cash flows (FCF), which typically occurs under the GMM and VFA models, and in some cases, under the PAA.

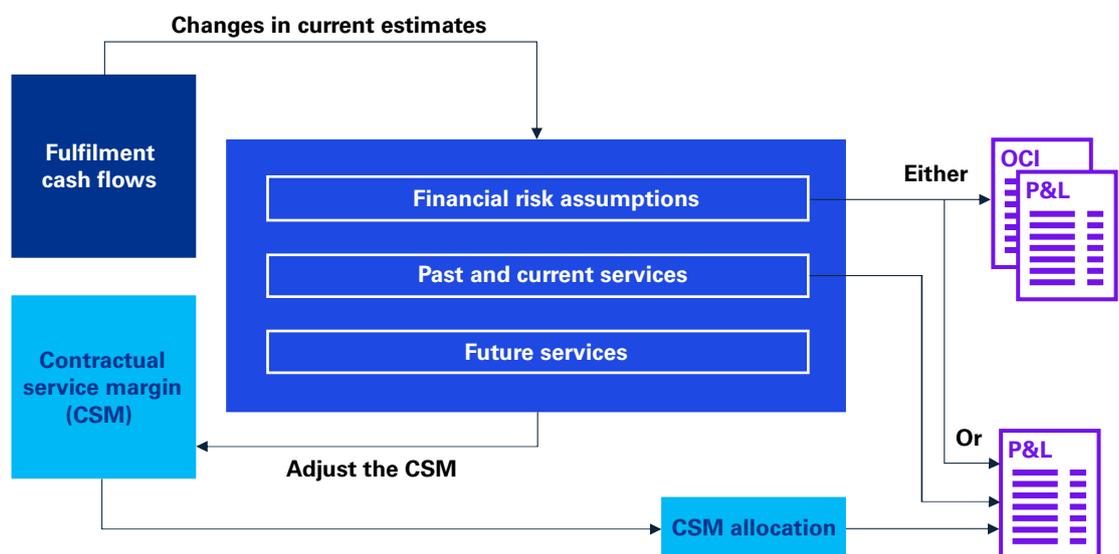
The mechanics of each model and an insurer’s IFRS 17 accounting policy choices affect the way interest rate movements are reflected in the financial statements (i.e. OCI, contractual service margin (CSM) and/or profit or loss). IFRS 17 accounting policy choices include:

- the OCI option to disaggregate IFIE between profit or loss and OCI; and
- the IFRS 17 risk mitigation option (for eligible VFA contracts).

General measurement model

IFRS 17.40–42

The carrying amount of the total liability of a group of insurance contracts⁶, measured under the GMM, consists of FCFs and the CSM. The subsequent measurement is as follows.



IFRS 17.36

Interest rate risk can be a significant element of insurance liabilities. When measuring FCFs, an insurer adjusts the estimates of future cash flows to reflect the:

- time value of money; and
- financial risks related to those cash flows, if these financial risks are excluded from the estimates of future cash flows.

IFRS 17.B72(a)

FCFs are measured by applying current discount rates. Therefore, changes in the interest rate affect the measurement of FCFs and, in turn, the carrying amount of the liability of a group of insurance contracts.

6. A ‘group of insurance contracts’ is the unit of account under IFRS 17. References to ‘insurance contracts’ in this section are to ‘groups of insurance contracts’.

IFRS 17.B72(b)–(c) The CSM for insurance contracts measured under the GMM is not affected by changes in interest rates. This is because it is measured, and interest is accreted, using discount rates determined on the date of initial recognition.

IFRS 17.88 The unwinding of, and changes in, discount rates applied to measure the liability of a group of insurance contracts is recognised as IFIE, which insurers may choose to present in profit or loss in its entirety, or to disaggregate between profit or loss and OCI. This accounting policy choice (the IFRS 17 OCI option) is applied at the level of a portfolio of insurance contracts, as defined in IFRS 17. This choice is available under all measurement models; however, there are slight variations in how it applies, depending on the measurement model.

In certain circumstances, an insurer may measure eligible insurance contract liabilities under the PAA or the VFA. These alternatives raise additional considerations when determining interest rate risk.

Premium allocation approach

IFRS 17.55 Under the PAA, the insurance liability for remaining coverage is measured with reference to premiums received and, when applicable, insurance acquisition cash flows.

IFRS 17.56, B72(d) If PAA insurance contracts have a significant financing component, then the liability for remaining coverage is adjusted to reflect both the time value of money and the effect of financial risk, using discount rates determined on the date of initial recognition⁷.

IFRS 17.59(b) The liability for incurred claims is measured in the same way for both PAA and GMM contracts – i.e. the liability for incurred claims is measured by applying current discount rates. However, an insurer is not required to adjust the liability for incurred claims of PAA insurance contracts for the time value of money if it expects FCFs relating to incurred claims to be paid within one year of the date that the claim is incurred.

Variable fee approach

IFRS 17.45(b), B113 Unlike for the GMM, the CSM for VFA insurance contract liabilities is affected by certain changes in financial risk assumptions (including interest rate risk assumptions). As a result, changes in the measurement of FCFs arising from changes in financial risk – in contrast to the GMM – are recognised in the CSM.

IFRS 17.B115–B116 However, under the VFA an insurer may apply the risk mitigation option in IFRS 17 – i.e. instead of adjusting the CSM, an insurer recognises some or all of the changes in the time value of money and the effect of financial risk in IFIE. The amount of IFIE recognised allows for a (partial) match with the movement in the risk mitigating instruments in profit or loss or OCI. An insurer can choose to apply the IFRS 17 risk mitigation option when certain criteria are met.

Reinsurance contracts held

IFRS 17.29, B109 Reinsurance contracts issued and held can only be measured by applying either the GMM or PAA and may be subject to interest rate risk exposure. The primary purpose of many reinsurance contracts held is to reduce an insurer's exposure to insurance risk arising from underlying issued insurance or reinsurance contracts. However, reinsurance contracts held may also reduce the insurer's interest rate risk and NRRE. Therefore, reinsurance contracts held may be used as a mechanism for managing net repricing risk.

4.2.2 Financial assets measured under IFRS 9

Insurers' investments typically include a mix of debt and equity instruments, and other investments (e.g. real estate). Investments in debt instruments may include loans or bonds. As interest rates vary,

7. Under paragraph 56 of IFRS 17, when an insurer expects the time between providing each part of the services and the related premium due date to be one year or less, it is not required to adjust the liability for remaining coverage to reflect the time value of money and the effect of financial risk.

so too might the fair value of debt instruments (especially fixed-rate debt instruments) and the expected cash flows related to variable-rate debt instruments. This exposes the insurer to interest rate risk.

IFRS 17.88

Insurers measure debt instruments in the financial statements under IFRS 9 at FVOCI, amortised cost or FVTPL. Interest earned from investments in debt instruments is included as part of an insurer's investment return in profit or loss. To minimise accounting mismatches, insurers generally aim to align their IFRS 17 accounting policy choice with the measurement model applied to financial assets – i.e. to either present IFIE in profit or loss in its entirety or disaggregate IFIE between profit or loss and OCI.

Some financial assets may contain embedded options or guarantees that could impact how the value of the financial assets responds to changes in interest rates.

4.2.3 Sources of volatility

Insurers that have adopted IFRS 17 and IFRS 9 benefit from much closer alignment between insurance liabilities and financial assets – e.g. applying the IFRS 17 OCI option when measuring insurance liabilities to disaggregate IFIE, and measuring debt instruments at FVOCI. The RMA proposals are complex, interacting closely with IFRS 9 and IFRS 17 choices and assessments that may affect the volatility reflected in insurers' financial statements (e.g. the IFRS 17 OCI and risk mitigation options, the business model test and solely payments of principal and interest (SPPI) test under IFRS 9, and whether existing hedging/risk mitigation solutions are applied).

Given this alignment, insurers need to apply a holistic perspective to firstly assess volatility in its broadest sense – i.e. where the effects of interest rate risk are recognised (profit or loss, OCI or CSM). Insurers may have different perspectives on what volatility stems from accounting mismatches and what volatility is caused by genuine economics. Therefore, we focus on volatility in a broad sense. Insurers can then analyse those accounting solutions already available under IFRS 9 and IFRS 17 – i.e. the IFRS 17 risk mitigation option and IFRS 9 hedge accounting. This will allow insurers to have a clear view of their volatility and any shortcomings of existing accounting solutions, before evaluating how the proposed RMA model might further enhance how they reflect their risk management activities in the financial statements.

Volatility in the financial statements might arise from various sources, including accounting and economic mismatches between insurance liabilities and available financial assets that back them. Although not exhaustive, key sources of volatility could include the following.

- Equity instruments are measured at FVOCI (without recycling) or FVTPL, but under the IFRS 17 OCI option, some of the changes in the time value of money and other financial risk on insurance contract liabilities flow through OCI.
- Financial asset interest rate sensitivities diverge from those of insurance liabilities – i.e. duration mismatches.
- Interest on the CSM is accreted under the GMM at rates determined on initial recognition, which may not align with how investment income is recognised on the financial assets.
- Financial assets that fail the SPPI test under IFRS 9 are measured at FVTPL, which may contrast with insurance liabilities subject to the IFRS 17 OCI option.

4.3 Risk identification

An entity would identify its eligible assets, liabilities and transactions exposed to repricing risk – i.e. its underlying portfolio. The proposals specify that only selected financial instruments listed in IFRS 9 are eligible to be included in the underlying portfolio.

The proposals exclude IFRS 17 contract balances from the underlying portfolio for NRRE. Insurers' NRRE is often driven by IFRS 17 (re)insurance contract balances and IFRS 9 assets. Excluding IFRS 17 balances may limit how well the model reflects the managed risk.

For the purposes of field-testing and providing feedback on the proposals, the IASB have asked insurers to assume that insurance contract assets and liabilities are eligible to be included in underlying portfolios.

4.4 Risk mitigation

Insurers manage interest rate risk using a range of macro and micro hedging strategies, often involving non-derivative positions and reinsurance contracts as well as derivatives. However, under the proposals, interest rate derivatives are the primary designated instruments, raising questions about how the model in its current form reflects insurers' ALM practices.

How insurers evaluate interest rate risk often varies. Some insurers evaluate the expected impact of changes in interest rates to financial statements prepared under IFRS Accounting Standards; others to either regulatory capital requirements (e.g. the Solvency Capital Requirement under the EU's Solvency II regime) or a measure of economic capital. If interest rate risk management and hedging strategies are not based directly on exposures arising from requirements in IFRS Accounting Standards, then it may be challenging for hedging relationships to be qualifying hedges under IFRS 9. Insurers may want to consider these challenges and assess whether these could be addressed in the RMA model when responding to the proposals.

Some insurers create economic hedges by investing in financial assets with a duration that closely matches that of insurance contract liabilities. This approach aims to reduce the difference between the timing at which an insurer's financial assets and insurance contract liabilities reprice⁸ to market interest rates. An RMS aiming for duration matching may be unable to completely eliminate interest rate risk because:

- the actual pattern in which insurance claims are incurred may differ from the expected claims pattern;
- the insurer may wish to retain some interest rate risk depending on its risk management objectives; and
- some insurance contract liabilities (e.g. those associated with life annuity products) may have a very long duration such that there may be no financial assets available with a closely matching duration.

Insurers typically use and monitor the following risk metrics to guide how they select assets to mitigate interest rate risk.

Risk metric	What is it used to measure?	How is it generally managed?
Duration gap	The difference in duration or interest rate sensitivity between financial assets and insurance contract liabilities	Using derivative instruments – e.g. spot and forward-starting IRS or forward bonds
Convexity gap	The sensitivity of the duration gap to changes in interest rates (e.g. a 100 basis points change)	Managed through payer or receiver swaptions

IFRS 9.72.21

Not all insurers apply, or are able to apply, hedge accounting to their economic hedges. Of those that do, many have opted under IFRS 9 to continue to apply IAS 39 hedge accounting.

How insurers determine and manage interest rate risk also varies. Insurers may assess this for a portfolio of insurance contracts and financial instruments (macro or portfolio hedging) or for specific assets or liabilities.

8. Generally, premiums from insurance contracts are agreed up-front and are fixed for the contractual term. Therefore, insurance contracts are expected to only reprice to market interest rates at the end of the contractual term.

4.5 Risk mitigation adjustment

ED.7.4.8, BC93

Under the RMA model, the RM adjustment would represent the amount of repricing risk successfully mitigated by an insurer through the use of designated derivatives.

An insurer would recognise the RM adjustment in the statement of financial position. It would recognise the amount accumulated as the RM adjustment 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.

Potential mismatches between OCI and the proposed RM adjustment

When insurers apply the IFRS 17 OCI option, they need to consider whether a significant mismatch could arise between amounts recognised in OCI (and accumulated in equity) and the proposed RM adjustment (depending on what is included in the underlying portfolio and how risk mitigation is evidenced). This is a key area for insurer field testing, because the proposals affect how risk mitigation is reflected in the financial statements.



How would the RM adjustment be treated by insurance regulators?

It is unclear how the RM adjustment would be treated for regulatory capital purposes. Under the proposals, the RM adjustment would be recognised as a separate line item in the statement of financial position and could be either a debit or a credit balance. However, it would be neither an asset nor a liability under the IASB's *Conceptual Framework for Financial Reporting* because it does not represent rights or obligations. Instead, it is an accounting adjustment designed to reflect the economic effect of RMA.

Insurers may need to assess the impact of the RM adjustment on regulatory capital requirements and/or reported performance measures.

4.6 Next steps

Before finalising the model, the IASB is asking stakeholders to field-test it and provide their feedback on the:

- exposure draft by 31 July 2026; and
- request for fieldwork by 30 November 2026.

The extended comment period presents an opportunity for insurer stakeholders to field-test the RMA model proposals and provide feedback to the IASB on whether they can be applied by insurers, or whether certain amendments are required.

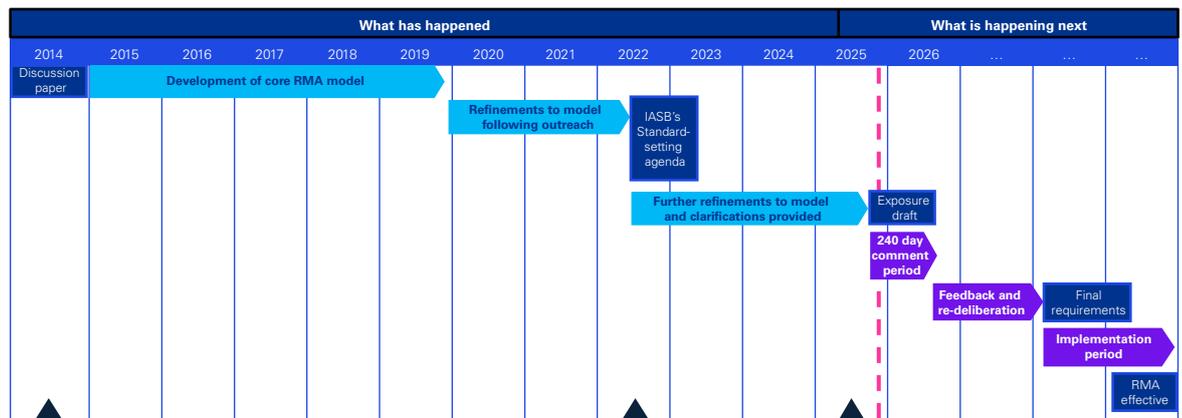
The IASB is seeking feedback from insurers on how they manage repricing risk and whether the proposed RMA model could better reflect repricing risk management activities in their financial statements. To perform field testing and provide feedback on RMSs, the IASB has asked insurers to assume that insurance contract assets and liabilities are eligible to be included in underlying portfolios.

Appendix 1: Project history

November 2008	<p>IASB begins work on a project to replace IAS 39 with an improved and more principles-based standard, IFRS 9.</p> <p>Hedge accounting phase of the project split into two parts – general hedge accounting and macro hedge accounting.</p>
November 2013	<p>IASB issues a new general hedge accounting standard as part of IFRS 9, with an effective date of 1 January 2018.</p> <p>Macro hedge accounting project carved out from the IFRS 9 project to avoid delays in IFRS 9's effective date.</p>
April 2014	<p>IASB publishes a discussion paper with proposals for a portfolio revaluation approach for macro hedge accounting.</p>
2015 – 2019	<p>IASB develops an alternative approach – the dynamic risk management (DRM) model – following feedback on its portfolio revaluation approach.</p>
2019 – 2025	<p>IASB conducts outreach exercises to refine the DRM model.</p>
December 2025	<p>IASB issues revised proposals on an RMA model, previously known as the DRM model.</p> <p>The ED comment period closes on 31 July 2026.</p> <p>The fieldwork responses are due by 30 November 2026.</p>

Appendix 2: What's next for the project

The diagram below sets out a summarised timeline of the project to date.



Following the new proposals, the next step is for stakeholders to provide feedback and perform field-testing of the proposals, in order for the IASB to finalise the RMA model. We strongly encourage constituents to provide feedback on the ED by 31 July 2026 and feedback on the field-testing by 30 November 2026, and to participate in the development of a transparent, operational and decision-useful accounting model.

Additionally, we draw attention to the following.

- The IASB has not yet proposed an effective date in the ED.
- The IASB typically allows an implementation period no shorter than 18 months from issuing a final standard. Given the RMA model is going to be optional, the mandatory effective date may not be as relevant.

The IASB proposed that IAS 39 hedge accounting requirements would be withdrawn after the RMA model becomes effective. Entities would be required to discontinue IAS 39 hedge accounting requirements when they implement the RMA model or when IAS 39 is no longer available. The ED does not propose a specific date for this. It is to be determined as part of finalising the RMA model.

Appendix 3: Common risk metrics

Common risk metrics for measuring repricing risk include the following.

PV01/DV01	<p>PV01 is the change in the present value of a portfolio of financial instruments triggered by a single basis point parallel change in interest rates.</p> <p>DV01 is the dollar value of a basis point which uses the same measurement technique as PV01 (typically it is used for bonds).</p>
ΔNII	Expected changes in net interest income over a period (e.g. a year) due to interest rate movements.
ΔEVE	Expected changes in economic value of equity due to interest rate movements, based on net present value of all expected cash flows from financial assets and financial liabilities.
EvaR	The value of decline of the EVE due to market shocks.
Notional repricing gap	The difference between the principal amount of interest rate sensitive assets and liabilities within a specific time period.

Appendix 4: Supporting material for Section 3

Journal entries supporting Examples 3 and 3A

Assume the following is the fair value of designated and benchmark derivatives at the respective dates.

	1 January 20X1	31 December 20X1
Valuation of the designated derivative and the benchmark derivative		
Designated derivative	-	(24,898)
Benchmark derivative	-	24,898

Bank C would record the following entries during the period from 1 January 20X1 to 31 December 20X1.

Underlying portfolio		
Recognition of interest income accrued	Debit	Credit
Financial assets (SoFP)	56,000	
Interest income (P&L)		56,000

To recognise interest income from FA 1 (200,000 x 3.00%) and FA 2 (1,000,000 x 5.00%)

Underlying portfolio		
Recognition of interest expense accrued	Debit	Credit
Interest expense (P&L)	25,500	
Financial liabilities (SoFP)		25,500

To recognise interest expense from FL 1 (500,000 x 5.10%)

Underlying portfolio		
Recognition of cash settlement of interest income and expense accrued	Debit	Credit
Financial liabilities (SoFP)	25,500	
Cash (SoFP)	30,500	
Financial assets (SoFP)		56,000

Designated derivative and RM adjustment		
Recognition of FV movement on designated derivative and initial recognition of RM adjustment	Debit	Credit
RM adjustment (SoFP)	25,272 ^(a)	
Designated derivative (SoFP)		24,898 ^(b)
Cash (SoFP)		374 ^(c)

To recognise FV movement on IRS and RM adjustment

- (a) Dirty FV (clean fair value plus accrued interest) of IRS at 31 December 20X1
- (b) Clean FV change of IRS at 31 December 20X1
- (c) Settled cash on IRS during 20X1

Designated derivative and RM adjustment		
Realisation of RM adjustment	Debit	Credit
Net interest income (P&L)	374	
RM adjustment (SoFP)		374

To realise RM adjustment – i.e. cash-settled element on the IRS that has offset volatility in net interest income

Amounts recognised in the financial statements at 31 December 20X1

	Debit	Credit
Net interest income (P&L) of 56,000 - 25,500 - 374		30,126
Cash (SoFP) of 30,500 - 374	30,126	
RM adjustment (SoFP) of 25,272 - 374	24,898	
Designated derivative – IRS (SoFP)		24,898

List of examples

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Example 2 – Re-specifying the RMO	2.3.2
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About this publication

This publication has been produced by the KPMG International Standards Group (part of KPMG IFRG Limited).

This edition considers the requirements of *Risk Mitigation Accounting* published by the IASB in December 2025.

Further analysis and interpretation will be needed for an entity to consider the impact of the proposals in light of its own facts, circumstances and individual transactions. The information contained in this publication is based on initial observations developed by the KPMG International Standards Group and these observations may change. Accordingly, neither this publication nor any of our other publications should be used as a substitute for referring to the standards and interpretations themselves.

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