



**IFRS<sup>®</sup>**

Accounting

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# Exposure Draft

IFRS<sup>®</sup> Accounting Standard

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## Risk Mitigation Accounting

Proposed amendments to IFRS 9 and IFRS 7

Comments to be received by 31 July 2026

**Exposure Draft**

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IFRS 7**

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

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## Introduction

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### Why is the IASB publishing this Exposure Draft?

- IN1 Repricing risk is the risk that assets and liabilities will reprice at different times or in different amounts. For purposes of risk mitigation accounting, repricing risk is a type of interest rate risk that arises from differences in the timing and amount of financial instruments that reprice to benchmark interest rates. Many entities manage repricing risk on a net basis, by aggregating exposures from financial instruments, instead of assessing risk on the basis of individual instruments or groups of similar instruments. For example, many financial institutions manage repricing risk arising from their banking activities on a net basis.
- IN2 An entity's exposure to repricing risk changes as new financial instruments are originated and existing financial instruments are settled. Many entities take a dynamic approach to managing the repricing risk arising from such open portfolios of financial instruments. This approach is generally referred to as 'dynamic risk management'.
- IN3 Entities have long faced challenges in faithfully representing the economic effect of such dynamic and complex risk management activities in financial statements in a way that provides useful information to users of financial statements.
- IN4 IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* introduced improved hedge accounting and disclosure requirements that enable entities to better reflect the economic effect of their risk management activities in their financial statements. However, the International Accounting Standards Board (IASB) noted when developing those requirements that dynamic risk management for open portfolios is a complex topic that warrants thorough research and feedback from interested parties. Accordingly, the IASB decided not to address accounting for dynamic risk management activities as part of the new hedge accounting model in IFRS 9. Instead, considering the complexity of the topic and feedback from stakeholders, the IASB decided to explore a more comprehensive solution to dynamic risk management separately.
- IN5 The IASB decided that while the project on accounting for dynamic risk management was in progress, it would provide entities with an accounting policy choice between applying the hedge accounting requirements in IFRS 9 and continuing to apply the hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement*.
- IN6 However, entities often find it difficult to account for their dynamic risk management activities under the hedge accounting requirements in IFRS 9 or IAS 39. These difficulties arise because these requirements are typically designed for closed portfolios and assume a stable designation between the hedged items and hedging instruments. To comply with the requirements, entities account for open-portfolio scenarios as a series of frequently changing

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

- IN7 These constraints make it difficult for entities to faithfully represent the economic effect of their risk management activities in their financial statements. Entities therefore frequently resort to alternative reporting methods to communicate this effect to users of their financial statements.
- IN8 For these reasons, the IASB started a project on Dynamic Risk Management (now Risk Mitigation Accounting) to develop a risk mitigation accounting model with requirements that entities can apply proportionately, reflecting the sophistication of their business and risk management activities.
- IN9 The IASB decided that, at a minimum, such a model should:
- (a) provide transparency about an entity's activities to manage interest rate risk and about how these activities affect the nature, timing and amount of future cash flows;
  - (b) ensure consistency between financial instruments for which an entity manages repricing risk on a net basis and financial instruments that are eligible for risk mitigation accounting;
  - (c) ensure risk mitigation accounting represents the dynamic nature of an entity's risk management activities; and
  - (d) ensure amounts recognised in an entity's financial statements represent the extent to which its risk management activities have successfully mitigated its exposure to repricing risk.
- IN10 The IASB expects that the requirements for risk mitigation accounting proposed in this Exposure Draft will achieve these outcomes because the IASB developed the proposals through close collaboration with stakeholders. The proposed requirements are informed by how entities manage repricing risk in practice.
- IN11 The feedback on this Exposure Draft will provide the IASB with the information necessary to determine whether the proposed requirements for risk mitigation accounting achieve the outcomes described in paragraph IN9.
- IN12 As well as seeking feedback on the proposed requirements, the IASB will separately invite stakeholders to carry out fieldwork on the proposals.

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

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

### **Proposals in this Exposure Draft**

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

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

- (a) document how the entity will apply risk mitigation accounting (in previous IASB discussions, ‘risk mitigation accounting’ was referred to as the ‘dynamic risk management model’) (paragraph 7.1.7);
- (b) identify the underlying portfolios (previously ‘underlying items’) that expose the entity to repricing risk (paragraphs 7.2.1–7.2.4);
- (c) determine the net repricing risk exposure (previously the ‘current net open risk position’) by aggregating the repricing risk arising from underlying portfolios based on expected repricing dates (paragraphs 7.2.5–7.2.10);
- (d) identify designated derivatives held for the purpose of managing repricing risk (paragraphs 7.3.1–7.3.8);
- (e) specify the risk mitigation objective (previously the ‘risk mitigation intention’) based on the net repricing risk exposure determined for each repricing time band (paragraphs 7.4.1–7.4.4);
- (f) construct benchmark derivatives by replicating the timing and amount of repricing risk as specified in the risk mitigation objective (paragraphs 7.4.5–7.4.7); and
- (g) recognise the risk mitigation adjustment (previously the ‘DRM adjustment’) by comparing the fair value changes in the designated derivatives with the fair value changes in the benchmark derivatives (paragraphs 7.4.8–7.4.14).

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

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

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

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

### **Next steps**

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

- (a) the remaining requirements in IAS 39 should be withdrawn;
- (b) the risk management strategies and actions of entities that issue insurance contracts could also be reflected in financial statements using risk mitigation accounting; and
- (c) the risk mitigation accounting model could be extended to other businesses that are also subject to dynamic risks (for example, those in the energy and commodities sectors).

## Invitation to comment

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

Comments are most helpful if they:

- (a) respond to the questions as stated;
- (b) indicate the specific paragraph(s) to which they relate;
- (c) contain a clear rationale;
- (d) identify any wording in a particular proposal that is not clear or would be difficult to translate; and
- (e) identify any alternative the IASB should consider, if applicable.

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

## Questions for respondents

<b>Question 1—Objective and scope of risk mitigation accounting (Section 7.1)</b>
<p>The IASB proposes that:</p> <ul style="list-style-type: none"><li>(a) the objective of risk mitigation accounting be for financial statements to represent the economic effect of an entity's risk management activities if the entity manages repricing risk on a net basis.</li><li>(b) risk mitigation accounting be applied on a voluntary basis. However, an entity would be permitted to apply risk mitigation accounting if, and only if, the entity mitigates repricing risk on a net basis and the entity's business and risk management activities have the characteristics specified in paragraph 7.1.4.</li><li>(c) an entity be required to document formally how it will apply risk mitigation accounting.</li></ul> <p>Paragraphs BC11–BC37 of the Basis for Conclusions explain the IASB's rationale for these proposals.</p> <p>Do you agree with these proposals? Why or why not? If you disagree with any of these proposals, please explain what you would suggest instead and why.</p>

**Question 2—Underlying portfolios (paragraphs 7.2.1–7.2.4)**

The IASB proposes that risk mitigation accounting be applied based on underlying portfolios – that is, portfolios of financial instruments that expose an entity to repricing risk. The IASB proposes that financial instruments be eligible for inclusion in underlying portfolios only if they are:

- (a) financial assets classified as subsequently measured at amortised cost or fair value through other comprehensive income (in accordance with paragraphs 4.1.2 or 4.1.2A of IFRS 9 *Financial Instruments*);
- (b) financial liabilities classified as subsequently measured at amortised cost (in accordance with paragraph 4.2.1 of IFRS 9); or
- (c) future transactions that could result in the recognition or derecognition of financial instruments specified in (a) or (b).

The IASB is also proposing that an entity apply risk mitigation accounting only to its exposure to repricing risk that is not otherwise mitigated. However, if a financial instrument is designated as a hedged item for a risk other than repricing risk, the hedged exposure would be eligible for inclusion in underlying portfolios.

Paragraphs BC38–BC63 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

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

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

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

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

- (a) the basis on which the entity aggregates the repricing risk arising from underlying portfolios and determines the repricing time bands (based on expected repricing dates); and
- (b) the measure the entity uses to quantify the repricing risk exposure in each repricing time band.

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

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

**Question 4—Designated derivatives (Section 7.3)**

The IASB proposes that only interest rate derivatives with a party external to the reporting entity that are used to mitigate the entity's repricing risk in accordance with its risk management strategy be eligible to be included as designated derivatives.

Paragraphs BC70–BC77 of the Basis for Conclusions explain the IASB's rationale for these proposals.

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

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

The IASB proposes that an entity:

- (a) specify a risk mitigation objective that is consistent with the amount of repricing risk the entity mitigates using designated derivatives, but does not exceed the amount of net repricing risk exposure in each repricing time band;
- (b) construct benchmark derivatives to replicate the timing and amount of repricing risk as specified in the risk mitigation objective; and
- (c) adjust the amount of repricing risk represented by the benchmark derivatives if unexpected changes in financial instruments included in underlying portfolios reduce the net repricing risk exposure to an amount below the risk mitigation objective specified at the beginning of the period.

Paragraphs BC78–BC87 of the Basis for Conclusions explain the IASB's rationale for these proposals.

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

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

The IASB proposes that an entity:

- (a) recognise the risk mitigation adjustment in the statement of financial position based on the lower of:
  - (i) the cumulative gains or losses on the designated derivatives; and
  - (ii) the cumulative change in the fair value (present value) of the benchmark derivatives;
- (b) recognise in profit or loss the amount accumulated as the risk mitigation adjustment in the same periods during which the repricing differences arising from the financial instruments in the underlying portfolios affect profit or loss;
- (c) assess, at each reporting date, whether there is an indication that the risk mitigation adjustment might not be realised in full over the mitigated time horizon; and
- (d) recognise immediately in profit or loss a reduction in the amount accumulated as the risk mitigation adjustment if it exceeds the present value of the net repricing risk exposure as at the reporting date.

Paragraphs BC88–BC116 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

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

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

The IASB proposes that an entity discontinue risk mitigation accounting prospectively from the date on which the entity’s risk management strategy changes – that is, when the entity changes how it manages repricing risk, including a change to the mitigated rate.

The IASB also proposes that an entity that discontinues risk mitigation accounting recognise the amount accumulated as the risk mitigation adjustment in profit or loss:

- (a) on a systematic and rational basis over the mitigated time horizon, if the repricing differences arising from the financial instruments in underlying portfolios are still expected to affect profit or loss; or
- (b) immediately, if the repricing differences arising from the financial instruments in underlying portfolios are no longer expected to affect profit or loss.

Paragraphs BC117–BC126 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

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

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

The IASB proposes that an entity be permitted to apply the requirements for risk mitigation accounting from the beginning of the annual reporting period starting on or after [the date the requirements are issued].

The IASB also proposes that an entity discontinue applying the hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement* at the earlier of:

- (a) the date on which the entity first applies the requirements for risk mitigation accounting; and
- (b) annual reporting periods beginning on or after [the date on which IAS 39 is withdrawn].

Paragraphs BC127–BC128 of the Basis for Conclusions explains the IASB’s rationale for these proposals.

Do you agree with the proposal to withdraw IAS 39? Why or why not? If you disagree, please explain what you would suggest instead and why. If the IASB decides to withdraw IAS 39, do you have any information for the IASB to consider in determining the withdrawal date, for example the time that is likely to be needed to transition from IAS 39?

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

The IASB proposes that:

- (a) an entity apply the proposed requirements for risk mitigation accounting prospectively;
- (b) an entity be permitted to revoke its previous designation of financial assets or financial liabilities as measured at fair value through profit or loss, if those financial instruments will be included in underlying portfolios that the entity uses to determine the net repricing risk exposure;
- (c) an entity making the transition from IAS 39 discontinue hedge accounting for all hedging relationships and apply paragraphs 6.5.10 and 6.5.12 of IFRS 9 to the related hedge adjustments;
- (d) an entity making the transition from the hedge accounting requirements in Chapter 6 of IFRS 9 be permitted to discontinue hedge accounting for hedging relationships in which the hedged items are financial instruments that will be included in the underlying portfolios in accordance with paragraph 7.2.1; and
- (e) an entity be exempt from disclosing the quantitative information required by paragraph 28(f) of IAS 8 *Basis of Preparation of Financial Statements* in the reporting period in which the entity first applies the amendments.

Paragraphs BC129–BC147 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

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

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

The IASB is proposing new presentation and disclosure requirements to be included in IFRS 7 *Financial Instruments: Disclosures*.

Paragraph 30E would require an entity to present separately from other line items:

- (a) the risk mitigation adjustment, either as part of the entity's assets (when it has a debit balance) or as part of its liabilities (when it has a credit balance) in the statement of financial position; and
- (b) the amount of the risk mitigation adjustment recognised in profit or loss during the period in the statement of comprehensive income.

Paragraphs 30F–30P would require an entity that applies risk mitigation accounting to disclose information that enables users of financial statements to understand:

- (a) how the entity manages repricing risk according to its risk management strategy;
- (b) how the entity's risk management activities could affect the amount, timing and uncertainty of its future cash flows; and
- (c) how risk mitigation accounting has affected the entity's statement of financial position and its statement of comprehensive income.

Paragraph 33A would apply to entities whose business and risk management activities have the characteristics specified in the proposed paragraph 7.1.4 of IFRS 9 but that choose not to apply risk mitigation accounting. Such entities would be required to provide a qualitative explanation of how they manage repricing risk.

Paragraphs BC148–BC171 of the Basis for Conclusions explain the IASB's rationale for these proposals.

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

## Question relating to entities that issue insurance contracts

### Question 11—Risk management strategy

The questions below relate specifically to entities that issue insurance contracts as defined in IFRS 17 *Insurance Contracts*. When answering these questions, respondents should assume that insurance contract assets and liabilities are eligible to be included in underlying portfolios in accordance with paragraph 7.2.1.

Based on the proposals in this Exposure Draft:

- (a) please describe the extent to which your risk management strategy and activities align with, or differ from, the descriptions in paragraphs 7.1.1–7.1.2; and
- (b) please describe the extent to which your business and risk management activities align with, or differ from, the characteristics described in paragraph 7.1.4.

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

### Deadline

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

### How to comment

Please submit your comments electronically:

Online <https://www.ifrs.org/projects/open-for-comment/>  
By email [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

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

## [Draft] Amendments to IFRS 9 *Financial Instruments*

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

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

### Chapter 7 Risk mitigation accounting

#### 7.1 Objective and scope of risk mitigation accounting

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- 7.1.1 An entity's financial instruments might reprice at different times and to different interest rate benchmarks. These repricing differences could be managed on the basis of individual instruments, groups of similar instruments, or on a net basis. To manage *repricing risk* on a net basis, an entity calculates the aggregated effect of repricing differences arising from financial assets, financial liabilities and future transactions with fixed and variable interest rates.
- 7.1.2 When an entity manages repricing differences on the basis of individual instruments or groups of similar instruments, the entity manages its exposure to either the variability in fair value (for fixed-rate instruments) or cash flows (for variable-rate instruments). However, when an entity manages repricing risk on a net basis, the entity could manage its exposure to variability in both the cash flows from, and the fair value of, its financial instruments.
- 7.1.3 The objective of risk mitigation accounting is for financial statements to represent the economic effect of an entity's risk management activities if the entity manages repricing risk on a net basis. Risk mitigation accounting also provides information about the purpose and effect of derivatives used to mitigate repricing risk.
- 7.1.4 **To ensure that risk mitigation accounting provides useful information to users of financial statements, an entity is permitted to apply risk mitigation accounting if, and only if:**
- (a) the entity's business activities give rise to the recognition and derecognition of financial instruments that expose it to repricing risk;

- (b) the entity's risk management strategy specifies risk limits within which repricing risk, based on a *mitigated rate*, is to be mitigated; and
- (c) the entity mitigates repricing risk arising from *underlying portfolios* on a net basis using derivatives in accordance with its risk management strategy.

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

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

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

- (a) manages repricing risk in accordance with its risk management strategy, including information about:
  - (i) the mitigated rate;
  - (ii) the *mitigated time horizon*; and
  - (iii) the risk limits within which repricing risk is to be mitigated (ie the thresholds for levels of repricing risk the entity is willing to accept);
- (b) determines the repricing risk to be mitigated, including information about:
  - (i) the nature and characteristics of financial instruments included in the underlying portfolios;
  - (ii) the measures the entity uses to assess repricing risk arising from the underlying portfolios and to quantify the *net repricing risk exposure*;
  - (iii) the repricing time bands the entity uses to manage the repricing risk arising from the underlying portfolios;
  - (iv) the frequency with which the entity reassesses its net repricing risk exposure; and

- (v) the approaches the entity uses to determine the expected repricing of the underlying portfolios;
- (c) specifies the *risk mitigation objective*;
- (d) identifies the designated derivatives used to mitigate repricing risk; and
- (e) captures the effects of unexpected changes in the net repricing risk exposure, including information about:
  - (i) how the entity identifies and adjusts the *benchmark derivatives* to reflect the effects of unexpected changes in its net repricing risk exposure;
  - (ii) how the entity assesses whether any effects of unexpected changes have not been captured in the measurement of the risk mitigation adjustment; and
  - (iii) how the entity measures the present value of the net repricing risk exposure at the reporting date.

## 7.2 Net repricing risk exposure

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### Underlying portfolios

- 7.2.1 For the purposes of applying risk mitigation accounting, an entity aggregates the repricing risk arising from underlying portfolios. Financial instruments are eligible to be included in the underlying portfolios only if they are:
- (a) financial assets classified as subsequently measured at amortised cost or fair value through other comprehensive income (in accordance with paragraphs 4.1.2 or 4.1.2A);
  - (b) financial liabilities classified as subsequently measured at amortised cost (in accordance with paragraph 4.2.1); or
  - (c) future transactions that could result in the recognition or derecognition of financial instruments specified in (a) or (b), in accordance with paragraph 7.2.4.
- 7.2.2 An entity shall apply risk mitigation accounting only to its exposure to repricing risk that is not otherwise mitigated. In other words, an entity cannot mitigate the same repricing risk more than once. However, financial instruments in underlying portfolios could be designated in a hedging relationship for risks other than repricing risk, in accordance with Chapter 6 of this Standard. A *hedged exposure* that affects an entity's exposure to repricing risk is eligible for inclusion in the underlying portfolios (see paragraph B7.2.6–B7.2.8).

- 7.2.3 Only financial instruments with a party external to the reporting entity are eligible to be included in the underlying portfolios. Financial instruments between entities in the same group can only be included in the underlying portfolios for the purposes of applying risk mitigation accounting in the individual or separate financial statements of those entities and not in the consolidated financial statements of the group.
- 7.2.4 Future transactions that could result in the recognition or derecognition of financial instruments that are eligible for inclusion in the underlying portfolios include (see paragraphs B7.2.4–B7.2.5):
- (a) the expected reinvestment of financial assets eligible for inclusion according to paragraph 7.2.1(a);
  - (b) the expected refinancing of financial liabilities eligible for inclusion according to paragraph 7.2.1(b);
  - (c) firm commitments; and
  - (d) forecast transactions that are highly probable.

### **Determining the net repricing risk exposure**

- 7.2.5 An entity shall determine the net repricing risk exposure by aggregating the repricing risk arising from underlying portfolios based on expected repricing dates. The expected repricing date is the earlier of the dates on which financial instruments included in the underlying portfolios are expected to be settled or to reprice.
- 7.2.6 The net repricing risk exposure must be reliably measurable.
- 7.2.7 An entity shall determine the net repricing risk exposure from the underlying portfolios that are managed on a net basis in accordance with the entity's risk management strategy. Therefore, the underlying portfolios aggregated to determine the net repricing risk exposure shall be consistent with the financial instruments the entity aggregates to manage repricing risk on a net basis (subject to the requirements in paragraph 7.2.1).
- 7.2.8 In some cases, an entity could manage repricing risk using more than one mitigated rate. In such cases, the entity shall aggregate the repricing risk arising from the relevant underlying portfolios based on reasonable and supportable information about how underlying portfolios are managed on a net basis in relation to each mitigated rate. However, an entity shall not aggregate the same underlying portfolios to determine the net repricing risk exposures based on more than one mitigated rate.
- 7.2.9 An entity shall determine the net repricing risk exposure in a manner that is consistent with how it makes risk management decisions, including with regard to:
- (a) the basis on which the entity aggregates the repricing risk arising from underlying portfolios and determines the repricing time bands (based on expected repricing dates); and

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

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

### 7.3 Designated derivatives

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

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

- (a) it is a net written option; or
- (b) its fair value changes are dominated by the effect of risks unrelated to changes in the mitigated rate, such as credit risk.

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

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

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

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

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

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

## 7.4 Applying risk mitigation accounting

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### Risk mitigation objective

- 7.4.1 An entity shall specify a risk mitigation objective that is consistent with the amount of repricing risk the entity mitigates using designated derivatives. However, the specified risk mitigation objective shall not exceed the amount of net repricing risk exposure in any repricing time band.
- 7.4.2 The risk mitigation objective represents the extent to which an entity mitigates the net repricing risk exposure to ensure that the residual exposure to repricing risk is within the risk limits specified in the entity's risk management strategy.
- 7.4.3 In specifying the risk mitigation objective, an entity shall consider reasonable and supportable information about the amount of repricing risk the entity intends to mitigate for risk management purposes. The actions an entity undertakes to mitigate repricing risk through the use of designated derivatives provide evidence of the entity's risk mitigation objective.
- 7.4.4 The frequency with which an entity specifies a risk mitigation objective depends on the nature of the entity's net repricing risk exposure and the frequency with which the entity undertakes risk management activities. A risk mitigation objective specified in accordance with paragraph 7.4.1 shall remain effective until the entity specifies a new risk mitigation objective. Changes to the risk mitigation objective are applied prospectively and do not affect the application of risk mitigation accounting in the previous periods.

### Benchmark derivatives

- 7.4.5 An entity shall replicate the timing and amount of repricing risk as specified in the risk mitigation objective through benchmark derivatives. An entity shall construct new benchmark derivatives to have an initial fair value of zero based on the mitigated rate.
- 7.4.6 However, unexpected changes in the financial instruments included in underlying portfolios might reduce the net repricing risk exposure to an amount below the risk mitigation objective specified at the beginning of the period. An entity shall adjust the benchmark derivatives to capture the effects of such unexpected changes.
- 7.4.7 The entity shall use reasonable and supportable information to adjust the benchmark derivatives to ensure that the exposure to repricing risk represented by the benchmark derivatives does not exceed the net repricing risk exposure in any repricing time band.

### **Recognising and measuring the risk mitigation adjustment**

- 7.4.8 An entity shall recognise the risk mitigation adjustment in the statement of financial position, measured at the lower of the following (in absolute amounts):
- (a) the cumulative gain or loss on the designated derivatives from the date the derivatives were designated; and
  - (b) the cumulative change in the fair value (present value) of the benchmark derivatives.
- 7.4.9 An entity shall recognise in profit or loss any remaining gain or loss on the designated derivatives that was not recognised as part of the risk mitigation adjustment in accordance with paragraph 7.4.8.
- 7.4.10 The amount accumulated as the risk mitigation adjustment shall be recognised in profit or loss in the same reporting periods during which the repricing differences arising from the financial instruments in the underlying portfolios affect profit or loss.

### **Risk mitigation adjustment excess**

- 7.4.11 An entity shall assess at each reporting date whether there is an indication that the amount accumulated as the risk mitigation adjustment might not be realised in full over the mitigated time horizon. This situation would arise if there were unexpected changes in the net repricing risk exposure during the reporting period that have not been fully reflected in the adjustments to the benchmark derivatives in accordance with paragraphs 7.4.6–7.4.7.
- 7.4.12 If such an indication exists, the entity shall determine whether the amount accumulated as the risk mitigation adjustment exceeds the present value of the net repricing risk exposure as at the reporting date.
- 7.4.13 The present value of the net repricing risk exposure represents the amount that would have been accumulated as the risk mitigation adjustment if the entity had fully mitigated the net repricing risk exposure as at the reporting date. The present value is calculated using the mitigated rate as the discount rate.
- 7.4.14 If the amount accumulated as the risk mitigation adjustment at the reporting date exceeds the present value of the net repricing risk exposure (measured in accordance with paragraph 7.4.13), an entity shall reduce the amount accumulated as the risk mitigation adjustment by recognising the excess amount in profit or loss immediately. Any such excess amounts recognised in profit or loss shall not be reversed in future periods.

## **7.5 Discontinuation of risk mitigation accounting**

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- 7.5.1** An entity that chooses to apply risk mitigation accounting shall not discontinue risk mitigation accounting unless there is a change in the entity's risk management strategy. If such a change occurs, the entity shall discontinue risk mitigation accounting prospectively from the date the change is made.
- 7.5.2** For the purpose of applying paragraph 7.5.1, a change in an entity's risk management strategy refers to a change in how the entity manages repricing risk. Such changes might include a change to the market interest rate identified as the mitigated rate or to the measures the entity uses to quantify the net repricing risk exposure. Changes in the entity's risk management activities in response to frequent changes in the entity's exposure to repricing risk do not constitute a change in the entity's risk management strategy. Therefore, an entity shall not discontinue risk mitigation accounting in response to changes of this type.
- 7.5.3** An entity that discontinues risk mitigation accounting shall account for the amount accumulated as the risk mitigation adjustment in accordance with paragraphs 7.4.8–7.4.14 as follows:
- (a) if the repricing differences from the financial instruments in the underlying portfolios are still expected to affect profit or loss, the entity shall recognise in profit or loss the amount accumulated as the risk mitigation adjustment:
    - (i) in accordance with paragraph 7.4.10; or
    - (ii) on another systematic and rational basis, which could include a straight-line basis; and
  - (b) if the repricing differences from the financial instruments in the underlying portfolios are no longer expected to affect profit or loss, the entity shall immediately recognise in profit or loss the amount accumulated as the risk mitigation adjustment.

## [Draft] Amendments to Appendix A Defined terms

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

<b>firm commitment</b>	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.
<b>forecast transaction</b>	An uncommitted but anticipated future transaction.
<b>benchmark derivatives</b>	The theoretical derivatives an entity constructs to replicate the timing and amount of repricing risk as specified in the risk mitigation objective.
<b>hedged exposure</b>	The combined effect of the hedged item and hedging instrument designated in a hedging relationship in accordance with Chapter 6 of this Standard.
<b>mitigated rate</b>	A benchmark interest rate based on which an entity manages repricing risk in accordance with its risk management strategy.
<b>mitigated time horizon</b>	The rolling period over which an entity mitigates repricing risk based on the mitigated rate in accordance with the entity's risk management strategy.
<b>net repricing risk exposure</b>	The net exposure to repricing risk, based on the relevant mitigated rate, arising from underlying portfolios for which an entity manages repricing risk on a net basis.
<b>repricing risk</b>	A type of interest rate risk that exposes an entity to variability in the cash flows from, and the fair value of, financial instruments, arising from differences in: <ul style="list-style-type: none"> <li>(a) the timing of when financial instruments reprice to benchmark interest rates; and</li> <li>(b) the amount of financial instruments that reprice in a particular period.</li> </ul>
<b>risk mitigation objective</b>	An absolute amount of repricing risk an entity intends to mitigate in accordance with its risk management strategy.
<b>underlying portfolios</b>	Portfolios of financial assets, financial liabilities and future transactions that expose an entity to repricing risk and that are aggregated to determine the net repricing risk exposure based on the mitigated rate.

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## **[Draft] Amendments to Appendix B Application Guidance**

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

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

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

### **Risk mitigation accounting (Chapter 7)**

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#### **Objective and scope (Section 7.1)**

- B7.1.1 Some entities' exposure to repricing risk changes frequently because of frequent changes to the financial instruments in the underlying portfolios. Individual financial instruments affect an entity's exposure to repricing risk because they affect the amounts that reprice in particular periods.
- B7.1.2 When an entity manages repricing risk on a net basis, its risk management strategy aims to manage the repricing differences across its underlying portfolios to achieve a dual objective of:
- (a) reducing variability in cash flows—changes in interest rates affect an entity's interest income and interest expense, thereby affecting profit or loss (sometimes referred to as an 'earnings perspective'); and
  - (b) reducing variability in fair value—changes in interest rates affect the present value of an entity's underlying portfolios (sometimes referred to as an 'economic value perspective').
- B7.1.3 An entity might not be able to mitigate variability in both cash flows and fair value to the same extent, and might use a combination of cash flow-based and fair value-based measures to measure and manage repricing risk. For example, the entity might decide to mitigate variability in cash flows from the underlying portfolios over the short term, while mitigating variability in fair value over the long term.
- B7.1.4 An entity that aggregates the repricing differences from different types of financial instruments might naturally offset some of the repricing risk. For example, some financial assets might mitigate the repricing risk arising from some financial liabilities. However, to the extent that there remain differences in the timing or amount of repricing in a particular period, an entity typically uses interest rate derivatives to mitigate repricing risk.

- B7.1.5 If entities do not apply risk mitigation accounting, the use of derivatives to mitigate repricing risk often results in an accounting mismatch in profit or loss. This mismatch arises from differences in the timing of when an entity recognises in profit or loss the repricing effects arising from its underlying portfolios, compared to the gains or losses on the derivatives. Applying risk mitigation accounting, an entity defers the recognition of the gains or losses on designated derivatives in profit or loss to the same period during which the repricing differences arising from the financial instruments in the underlying portfolios affect profit or loss.
- B7.1.6 An entity's risk management strategy is established at the highest level at which an entity determines how the entity manages repricing risk. Risk management strategies typically identify the risks to which the entity is exposed and set out how the entity responds to them. A risk management strategy is typically in place for an extended period and may include some flexibility to react to changes in circumstances that occur while that strategy is in place. This strategy is normally set out in a general document that is cascaded down through an entity through policies containing more specific guidelines.
- B7.1.7 The level at which an entity applies risk mitigation accounting is determined by how the entity manages repricing risk in accordance with its risk management strategy. Therefore, the entity applies risk mitigation accounting at the level at which the entity determines the exposure to repricing risk on a net basis. For example, if, in accordance with the risk management strategy, an entity manages repricing risk at a reporting entity or consolidated group level only, the entity applies risk mitigation accounting at that level. However, if an entity manages repricing risk at a lower level within the reporting entity – for example, based on different geographical areas or different currencies – the entity applies risk mitigation accounting at that level.
- B7.1.8 An entity could manage repricing risk based on one or more mitigated rates. If the entity manages repricing risk using more than one mitigated rate, it applies risk mitigation accounting separately to each subset of underlying portfolios for which it manages repricing risk based on the same mitigated rate. For example, an entity might specify the benchmark interest rate used for internal transfer pricing purposes as the mitigated rate at a reporting entity level. Alternatively, an entity might manage repricing risk based on different currencies and specify a mitigated rate for each of the main currencies in which the entity's financial instruments are denominated.
- B7.1.9 An entity's risk management activities could change frequently to respond to frequent changes in the entity's exposure to repricing risk. Therefore, the entity is not required to document the particular risk management activities it plans to undertake to manage repricing risk before undertaking those activities. Instead, the documentation is required to describe the processes and controls an entity will apply when undertaking risk management activities and must be updated to reflect any subsequent changes to these processes and controls.

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

## Net repricing risk exposure (Section 7.2)

### Underlying portfolios

- B7.2.1 Financial instruments are eligible to be included in underlying portfolios only if they:
- (a) affect an entity's exposure to repricing risk; and
  - (b) are subsequently measured in a way that creates an accounting mismatch in profit or loss because of differences between when the entity recognises:
    - (i) the effect of repricing differences arising from its financial instruments; and
    - (ii) the gains or losses on the derivatives the entity uses to manage repricing risk on a net basis.
- B7.2.2 Most financial assets and financial liabilities eligible for inclusion in underlying portfolios in accordance with paragraph 7.2.1 affect an entity's repricing risk because the individual instrument has an explicit exposure to interest rate risk (for example, because the instrument has a contractually specified interest rate and maturity). However, the effect on an entity's exposure to repricing risk arising from some financial instruments could differ if instruments are assessed on a portfolio basis instead of on an individual instrument basis. For example, a financial liability that is contractually repayable on demand (such as a demand deposit) could be withdrawn at short notice if market interest rates change. Therefore, that financial liability would effectively behave like a variable-rate instrument. On an individual instrument basis, such a financial liability is not exposed to fair value changes when market interest rates change because it is measured at the amount repayable on demand. However, some deposits are not withdrawn, and customer balances are maintained for a long period. Therefore, on a portfolio basis, a portion of such deposits is deemed to represent fixed-rate financial liabilities and is eligible for inclusion in underlying portfolios.

*Future transactions*

- B7.2.3 In paragraph 7.2.1(c), the term ‘future transactions’ refers to transactions that are not yet recognised in the financial statements, but could result in the recognition or derecognition of financial assets or financial liabilities that affect an entity’s exposure to repricing risk.
- B7.2.4 In managing repricing risk, entities often assume that the cash flows from the settlement of financial instruments included in the underlying portfolios will be reinvested (in the case of financial assets) or refinanced (in the case of financial liabilities). Such future transactions are eligible for inclusion in underlying portfolios if—based on reasonable and supportable information—the reinvestment or refinancing is expected to occur. For the purposes of applying risk mitigation accounting, this expected reinvestment or refinancing represents a variable-rate exposure.
- B7.2.5 Future transactions also include forecast transactions such as anticipated increases or decreases in the volume of financial assets or financial liabilities. Such forecast transactions do not meet the definition of a firm commitment because of the lack of a binding agreement. However, when considered on a portfolio basis, some of these forecast transactions will result in the recognition or derecognition of financial instruments that are eligible for inclusion in the underlying portfolios. For the purposes of applying risk mitigation accounting, forecast transactions are eligible for inclusion in the underlying portfolios only if an entity can estimate—using reasonable and supportable information—the volume of forecast transactions that are highly probable on a portfolio basis.

*Hedged exposures*

- B7.2.6 Financial instruments in underlying portfolios might expose an entity to risks other than repricing risk. An entity applies risk mitigation accounting only to repricing risk. However, an entity is permitted to apply the hedge accounting requirements in Chapter 6 to hedge financial instruments included in underlying portfolios for risks other than repricing risk.
- B7.2.7 In some cases, financial instruments that are eligible to be included in the underlying portfolios are designated as hedged items (in accordance with Chapter 6) and an entity’s exposure to repricing risk is affected by the hedged exposure. In such cases, an entity includes that hedged exposure in the underlying portfolios in its entirety. For example, an entity might have fixed-rate financial liabilities denominated in a foreign currency that the entity might hedge using cross-currency interest rate swaps. If so, the entity might designate the financial liabilities in a hedging relationship to hedge both interest rate risk and foreign currency risk. This hedged exposure would effectively transform the fixed-rate foreign currency financial liabilities into variable-rate functional currency financial liabilities. Consequently, the exposure to repricing risk arising from this hedged exposure would be similar to that of the entity’s other variable-rate financial instruments in its functional currency. In this case, the hedged exposure would be eligible for inclusion in underlying portfolios.

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

**Determining the net repricing risk exposure**

- B7.2.9 Underlying portfolios include financial assets, financial liabilities and future transactions that reprice at different times and might reprice based on different benchmark rates. An entity determines the net repricing risk exposure by aggregating the effects of all financial instruments in the underlying portfolios based on the mitigated rate.
- B7.2.10 The net repricing risk exposure represents the exposure to repricing risk arising from the underlying portfolios before an entity undertakes any risk management activities.
- B7.2.11 To determine the net repricing risk exposure, an entity is required to consider the effects of all the contractual terms of the financial instruments included in underlying portfolios that could affect repricing risk—for example, prepayment or extension options. The entity might need to make assumptions about when financial instruments included in the underlying portfolios are expected to reprice. For some types of financial instruments, the expected repricing date might be determined through modelling historical customer behaviour. For example, an entity might model the level of demand deposits that it expects to be maintained despite changes in interest rates or the early repayment rates of particular financial assets. For other types of financial instruments, the repricing date might be determined based on the contractual maturity date—for example, financial instruments that do not permit early repayment. An entity is not required to use the same approach for all financial instruments included in underlying portfolios.
- B7.2.12 When an entity aggregates repricing risk from underlying portfolios based on expected repricing dates, it uses repricing time bands to group financial instruments included in the underlying portfolios. The number and length of repricing time bands over the mitigated time horizon are required to be consistent with the time bands an entity uses for risk management purposes.
- B7.2.13 The measure used to quantify the net repricing risk exposure in each repricing time band is required to be consistent with the measure used for risk management purposes. For example, an entity could use:
- (a) a cash flow-based measure (such as a repricing maturity gap measure);  
or
  - (b) a fair value-based measure (such as a present value per basis point measure).
- B7.2.14 An entity is permitted to use different measures to quantify the net repricing risk exposure for different repricing time bands. However, the entity is required to apply the same measure to all exposures in the same repricing time band. For example, an entity might:

- (a) use a cash flow-based measure (such as the repricing maturity gap) for repricing time bands up to 12 or 24 months; and
  - (b) use a fair value-based measure for all other repricing time bands over the mitigated time horizon.
- B7.2.15 The complexity of the methodologies and processes required for an entity to determine the net repricing risk exposure might vary between underlying portfolios. For some underlying portfolios, an entity might be able to estimate the amount of repricing risk in each repricing time band with little analysis or computation. For other underlying portfolios, an entity might need to carry out complex analysis and computation to determine the amount of repricing risk in each repricing time band.
- B7.2.16 To determine the net repricing risk exposure, an entity is required to use reasonable and supportable information that is available at the time the entity makes the determination. Reasonable and supportable information includes information about the contractual and behavioural characteristics of the financial instruments included in the underlying portfolios. It also includes information about other factors that are relevant to estimating the amount of repricing risk in each repricing time band.
- B7.2.17 All financial assets measured at amortised cost and fair value through other comprehensive income are eligible for inclusion in underlying portfolios. However, an entity might not include in underlying portfolios all of its eligible financial assets that expose the entity to repricing risk. For example, in accordance with its risk management strategy, an entity might view cash balances (such as central bank deposits) and highly liquid variable-rate financial assets as exposing the entity to repricing risk only to the extent that these financial assets are funded by equity. To determine the exposure to repricing risk arising from these variable-rate financial assets, the entity might use internal modelling methodologies (such as replicating portfolios) as a proxy for this exposure (sometimes referred to as 'equity modelling'). If an entity uses such methodologies for risk management purposes, it must determine the net repricing risk exposure arising from the relevant underlying portfolios in the same way.

## **Applying risk mitigation accounting (Section 7.4)**

### **Risk mitigation objective**

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

- B7.4.2 Because the risk mitigation objective is an absolute rather than a relative amount of repricing risk, the financial instruments in the underlying portfolios are not proportionately represented in the risk mitigation objective. For example, an entity might specify a risk mitigation objective of 60 units and its net repricing risk exposure might be 100 units. In that case, the entity would not specify a proportion of 60 per cent of each of the financial instruments or a particular subset of financial instruments in underlying portfolios that would have a total repricing risk of 60 units.
- B7.4.3 The risk mitigation objective is a matter of fact and not merely an assertion. It is observable through the activities an entity undertakes to manage repricing risk on a net basis by transferring the risk to entities external to the reporting entity. In other words, the risk mitigation objective is required to be evidenced by the designated derivatives an entity uses to mitigate repricing risk. For example, if an entity with a net repricing risk exposure of 100 units uses designated derivatives that mitigate 80 units of repricing risk, the entity is required to specify a risk mitigation objective of 80 units. The entity cannot specify a risk mitigation objective of 70 units or 90 units, because that would be inconsistent with the risk management activities the entity undertakes to mitigate repricing risk. Nor can the entity specify a risk mitigation objective of 110 units, because that would exceed the net repricing risk exposure. Even if the entity has designated derivatives that mitigate more than 100 units of repricing risk, the risk mitigation objective is limited to 100 units (the net repricing risk exposure).
- B7.4.4 The risk mitigation objective is specified for a period until an entity specifies a new risk mitigation objective—for example, when it undertakes further activities to mitigate repricing risk or when there is a change in the net repricing risk exposure. The period for which the risk mitigation objective is specified is not required to coincide with the entity's internal or external reporting periods.
- B7.4.5 In accordance with paragraph 7.4.1, the risk mitigation objective cannot exceed the net repricing risk exposure in any repricing time band. An entity is not required to apply the requirements in paragraph 7.2.10 to determine an updated net repricing risk exposure before specifying a new risk mitigation objective. However, an entity must consider reasonable and supportable information—available at the date the entity specifies a new risk mitigation objective—about changes to the underlying portfolios that might have occurred since the entity last determined the net repricing risk exposure. For this purpose, an entity is not required to undertake an exhaustive search for information; instead, it is required to consider all reasonable and supportable information that is relevant to the assessment of the net repricing risk exposure.
- B7.4.6 Although the risk mitigation objective is required to mitigate an entity's exposure to repricing risk to an amount that is within the risk limits specified in the entity's risk management strategy, the entity is not required to specify risk limits for each repricing time band. However, if risk limits are specified for each repricing time band, an entity is required to consider that fact when specifying the risk mitigation objective.

### Benchmark derivatives

- B7.4.7 An entity shall construct benchmark derivatives that represent the timing and amount of repricing risk specified in the risk mitigation objective. As explained in paragraph B7.4.2, the risk mitigation objective is not a designation of identifiable financial instruments in the underlying portfolios. Therefore, the risk mitigation objective cannot be represented by direct reference to financial instruments in the underlying portfolios and is instead represented by benchmark derivatives.
- B7.4.8 The risk mitigation objective is required to be evidenced by the amount of repricing risk an entity intends to mitigate by using designated derivatives. However, the benchmark derivatives can only include features that are present in both the designated derivatives and the repricing risk represented by the risk mitigation objective. Therefore, the benchmark derivatives cannot simply replicate all the terms of the designated derivatives. For example, an entity might determine repricing risk in the nine-year repricing time band to be 100 units and might intend to mitigate 70 units of the repricing risk through the use of designated derivatives with a contractual maturity of 10 years. In that case, the entity would construct the benchmark derivatives based on the 70 units of repricing risk in the nine-year period.
- B7.4.9 Benchmark derivatives are an important element of risk mitigation accounting, not only as a representation of risk mitigation objectives over time, but also for the purposes of measuring the risk mitigation adjustment. Therefore, benchmark derivatives are constructed based on the mitigated rate and calibrated to have an initial fair value of zero at the date they are constructed.
- B7.4.10 The benchmark derivatives are constructed to represent the risk mitigation objective as specified on a particular date. Therefore, unexpected changes in the underlying portfolios that occur after that date might reduce the net repricing risk exposure to below the risk mitigation objective. To ensure that the benchmark derivatives remain representative of the mitigated repricing risk, an entity is required to adjust the benchmark derivatives to reflect the effect of such unexpected changes using reasonable and supportable information.
- B7.4.11 Unexpected changes in financial instruments included in underlying portfolios could occur if these instruments reprice earlier or later than expected—for example, prepayments on an entity’s mortgage portfolio could be higher or lower than expected.
- B7.4.12 However, an entity is not required to capture the effects of all unexpected changes in the net repricing risk exposure. An entity is required to adjust the benchmark derivatives only if unexpected changes reduce the net repricing risk exposure to below the risk mitigation objective in any repricing time band. For example, the risk mitigation objective might result in 70 units of repricing risk being mitigated in a particular repricing time band when the net repricing risk exposure allocated to that repricing time band was 100 units. In that case, the entity would need to adjust the benchmark derivatives

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

- B7.4.13 An entity might take various approaches to adjusting the benchmark derivatives to capture the effects of unexpected changes. For example, an entity might use the characteristics and interest rate structures of financial instruments in the underlying portfolios to approximate the adjustment to the benchmark derivatives. The approach an entity takes will depend on the specificity with which the entity tracks its risk management activities over time. Regardless of the approach an entity applies, it must use reasonable and supportable information to estimate necessary adjustments to the benchmark derivatives.
- B7.4.14 However, if reasonable and supportable information to estimate the effect of unexpected changes on the benchmark derivatives is not available without undue cost or effort, an entity shall deem the unexpected changes to have occurred at the time when the risk mitigation objective was last specified. For example, if an entity specifies a new risk mitigation objective on a monthly basis, the entity assumes that any unexpected changes during a month occurred at the beginning of that month.

#### **Recognising and measuring the risk mitigation adjustment**

- B7.4.15 The risk mitigation adjustment represents the extent to which the designated derivatives have mitigated the repricing risk represented by the benchmark derivatives. The recognition and measurement of the risk mitigation adjustment, in accordance with paragraph 7.4.8, is based on the extent to which the gains or losses on the designated derivatives have been deferred to future periods over the mitigated time horizon in which the repricing differences arising from the financial instruments in the underlying portfolios affect profit or loss.
- B7.4.16 In accordance with paragraph 7.4.4, an entity is required to specify a risk mitigation objective with the same frequency with which the entity undertakes risk management activities. However, an entity is not required to measure the risk mitigation adjustment with the same frequency. For example, an entity that specifies a new risk mitigation objective in accordance with paragraph 7.4.4 on a daily or weekly basis due to frequent changes in the underlying portfolios is not required to measure the risk mitigation adjustment on a daily or weekly basis.
- B7.4.17 Paragraph 7.4.10 requires an entity to recognise the amount accumulated as the risk mitigation adjustment in profit or loss in the same reporting periods during which the repricing differences arising from financial instruments in the underlying portfolios affect profit or loss. The benchmark derivatives represent the timing and amount of the mitigated repricing risk. Therefore, the entity could use the accrual profiles of these benchmark derivatives as a proxy to determine the reporting periods during which the entity recognises the amount accumulated as a risk mitigation adjustment in profit or loss.

**Risk mitigation adjustment excess**

- B7.4.18 An entity is required to ensure that the risk mitigation adjustment remains a reasonable representation of the expected effects of repricing risk on the cash flows from, or fair value of, the underlying portfolios over the mitigated time horizon. Therefore, the entity is required to assess at each reporting date whether there is an indication that the risk mitigation adjustment might not be realised in full.
- B7.4.19 The amount accumulated as the risk mitigation adjustment in the statement of financial position represents the effects of an entity mitigating the repricing risk arising from financial instruments in the underlying portfolios by using designated derivatives over the mitigated time horizon. When unexpected changes in the underlying portfolios occur, an entity applies paragraphs 7.4.6–7.4.7 to adjust the benchmark derivatives to reflect the effects of such changes. However, in some circumstances, an entity might not be able to adjust the benchmark derivatives to capture the effect of unexpected changes. In such circumstances, the entity would need to consider whether such changes could negatively affect its ability to realise the risk mitigation adjustment over the mitigated time horizon.
- B7.4.20 An entity calculates the amount that the risk mitigation adjustment would have been if the entity fully mitigated the net repricing risk exposure at the reporting date. To do so, the entity needs to calculate the present value of the effects of repricing risk on the cash flows from, or fair value of, the underlying portfolios at the reporting date. Consequently, the present value of the net repricing risk exposure is not simply the present value of the financial instruments included in the underlying portfolios. For example, the present value of some financial instruments might be the outstanding principal amount. However, for the purpose of applying paragraph 7.4.12, an entity calculates the present value of the effects of risk mitigation. In other words, the entity deems repricing risk to have been mitigated in full.
- B7.4.21 An entity could use various approaches—based on reasonable and supportable information that is available without undue cost or effort—to measure the present value of the net repricing risk exposure at the reporting date. For example, the entity could approximate the effects of risk mitigation on variable-rate instruments by reference to internal derivatives used to transfer repricing risk within the reporting entity or by using internal modelling methodologies, as described in paragraph B7.2.17.
- B7.4.22 The amount accumulated as the risk mitigation adjustment could be either a debit or credit balance in the statement of financial position. Therefore, an entity recognising an excess amount of the risk mitigation adjustment in accordance with paragraph 7.4.14 could recognise either a gain or loss in profit or loss.
- B7.4.23 After recognising the excess amount of the risk mitigation adjustment in profit or loss, an entity is required to make corresponding adjustments to the amounts to be recognised in profit or loss in future periods in accordance with paragraph 7.4.10. An entity is permitted to make such adjustments on a

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

### **Discontinuation of risk mitigation accounting (Section 7.5)**

- B7.5.1 An entity is required to apply judgement to determine whether there is a change in its risk management strategy, as described in paragraph B7.1.6, that requires the entity to discontinue risk mitigation accounting in accordance with paragraph 7.5.1.
- B7.5.2 Changes to an entity's risk management strategy are expected to be infrequent and usually do not occur in isolation. Instead, they are likely to be the result of internal or external factors that are expected to affect the entity's business operations to an extent that necessitates a change in how the entity manages repricing risk. Generally, changes to an entity's business operations that necessitate a change in its risk management strategy are demonstrable to the entity's internal and external stakeholders.
- B7.5.3 The following examples illustrate changes in an entity's risk management strategy that require the entity to discontinue risk mitigation accounting. The list is not exhaustive.

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

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

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

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

- (a) changes to the risk mitigation objective;
- (b) changes to the risk limits within which the net repricing risk exposure can vary;
- (c) changes to the underlying portfolios that are used to determine the net repricing risk exposure; and
- (d) changes to the designated derivatives.

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

## **[Draft] Appendix C**

### **Effective date and transition**

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

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

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

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

*This appendix is an integral part of the Standard.*

#### **C1 Effective date**

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- C1.16 *Risk Mitigation Accounting*, issued in [Month, Year], amended IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*. An entity is permitted to apply the requirements from the beginning of an annual reporting period starting on or after [the date the requirements are issued].
- C1.17 IAS 39 *Financial Instruments: Recognition and Measurement* has been withdrawn and an entity shall discontinue applying these requirements at the earlier of:
- (a) the date the entity applies risk mitigation accounting in accordance with Chapter 7; and
  - (b) annual reporting periods beginning on or after [date to be determined].

#### **C2 Transition**

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##### **Transition for *Risk Mitigation Accounting***

- C2.54 An entity shall apply the requirements in Chapter 7 prospectively.
- C2.55 The transition requirements in paragraphs C2.56–C2.61 apply when an entity first applies risk mitigation accounting, irrespective of whether the entity chooses to apply the requirements from:
- (a) the beginning of the first annual reporting period starting on or after [the date the requirements are issued]; or

- (b) the beginning of a subsequent annual reporting period.
- C2.56 For the purposes of applying risk mitigation accounting, the transition requirements an entity is required to apply vary depending on whether the entity previously applied:
- (a) the hedge accounting requirements in IAS 39; or
  - (b) the hedge accounting requirements in Chapter 6 of this Standard.
- C2.57 An entity that previously applied the hedge accounting requirements in IAS 39 shall discontinue hedge accounting for the relevant hedging relationships. The entity shall apply paragraph 6.5.10 of this Standard to any fair value hedge adjustments and paragraph 6.5.12 of this Standard to any cash flow hedge reserves related to those discontinued hedging relationships. If, for the purpose of applying paragraph 6.5.10, amortising the fair value hedge adjustment using a recalculated effective interest rate is impracticable, the entity shall amortise the adjustment on a systematic and rational basis, which could include a straight-line basis. The hedge adjustment shall be fully amortised at the earlier of:
- (a) the date when the remaining term of the discontinued portfolio hedge of interest rate risk would have expired; and
  - (b) the date when the hedged items are derecognised.
- C2.58 An entity that previously applied the hedge accounting requirements in Chapter 6 of this Standard is permitted to discontinue hedge accounting for hedging relationships in which some or all of the hedged items are financial instruments that will be included in underlying portfolios for the purposes of applying risk mitigation accounting.
- C2.59 An entity is permitted to revoke its previous designation of financial assets or financial liabilities as measured at fair value through profit or loss if those financial assets or financial liabilities will be included in underlying portfolios for the purposes of applying risk mitigation accounting.
- C2.60 An entity that applies paragraph C2.59 shall revoke its designation of any financial assets or financial liabilities as measured at fair value through profit or loss at the beginning of the annual reporting period in which the entity first applies risk mitigation accounting. The entity shall use the fair value of such financial instruments at that date as the gross carrying amount of the financial assets or the amortised cost of the financial liabilities, as well as the basis for calculating the instruments' effective interest rate. For the purposes of applying the requirements in Section 5.5 to such financial assets, an entity shall use this date as the date of initial recognition.
- C2.61 In the reporting period in which an entity first applies these amendments, an entity is not required to disclose the quantitative information required by paragraph 28(f) of IAS 8 *Basis of Preparation of Financial Statements* or paragraph 178(f) of IFRS 19 *Subsidiaries without Public Accountability: Disclosures*.

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

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

### **Significance of financial instruments for financial position and performance**

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#### **Other disclosures**

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#### **Risk mitigation accounting**

- 30D An entity that applies risk mitigation accounting in accordance with Chapter 7 of IFRS 9 shall apply the presentation and disclosure requirements in paragraphs 30E–30P.
- 30E An entity shall present separately from other line items:
- (a) the risk mitigation adjustment recognised either as part of the entity's assets (when it has a debit balance) or as part of its liabilities (when it has a credit balance) in the statement of financial position; and
  - (b) the amount of the risk mitigation adjustment recognised in profit or loss during the reporting period in the statement of comprehensive income.
- 30F The risk mitigation accounting disclosures an entity makes in accordance with paragraphs 30G–30P shall enable users of its financial statements to understand:
- (a) how the entity manages repricing risk according to its risk management strategy;
  - (b) how the entity's risk management activities could affect the amount, timing and uncertainty of its future cash flows; and
  - (c) how applying risk mitigation accounting has affected the entity's statement of financial position and statement of comprehensive income.
- 30G To meet the objectives set out in paragraph 30F, an entity shall apply the principles in paragraph 41 of IFRS 18 *Presentation and Disclosure in Financial Statements* when determining the most appropriate way to aggregate or disaggregate information in its financial statements, including in the notes.

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

*The risk management strategy*

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

- (a) how the entity's exposure to repricing risk arises, including a description of the nature and characteristics of the underlying portfolios used to determine the net repricing risk exposure;
- (b) how the entity manages repricing risk, including details about the mitigated rate and mitigated time horizon; and
- (c) how the entity determines the net repricing risk exposure, including the level at which it is determined and the measures the entity uses to quantify repricing risk.

*The amount, timing and uncertainty of future cash flows*

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

- (a) a profile of the timings of the nominal amounts of the designated derivatives (for example, by repricing time bands); and
- (b) the average fixed interest rate of the designated derivatives.

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

*The effects of risk mitigation accounting on financial position and performance*

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

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

- (b) the line items in the statement of financial position in which the financial instruments are included (or will be included in the case of future transactions);
  - (c) qualitative information about the inputs, assumptions and estimation techniques the entity used to aggregate the repricing risk arising from underlying portfolios by repricing time bands; and
  - (d) information about any hedged exposures.
- 30M An entity shall disclose, in a tabular format, information about designated derivatives, including:
- (a) the carrying amount of the designated derivatives;
  - (b) the line items in the statement of financial position in which the designated derivatives are included;
  - (c) the change in fair value of the designated derivatives during the reporting period that is used in measuring the risk mitigation adjustment; and
  - (d) the notional amounts of the designated derivatives.
- 30N An entity shall disclose information that enables users of financial statements to understand how the risk mitigation adjustment has been measured, including:
- (a) the entity's approach to capturing the effects of unexpected changes in the financial instruments included in underlying portfolios during the period;
  - (b) the gains or losses on the designated derivatives not recognised as part of the risk mitigation adjustment, both cumulatively and for the reporting period;
  - (c) the line items in the statement of comprehensive income in which the gains or losses described in (b) are included; and
  - (d) the expected profile for recognising the amount accumulated as the risk mitigation adjustment in profit or loss.
- 30O An entity shall disclose, in a tabular format, a reconciliation from the opening to the closing balance of the risk mitigation adjustment, showing separately:
- (a) the gains or losses on the designated derivatives that have been recognised as part of the risk mitigation adjustment during the period;
  - (b) the amount of the risk mitigation adjustment that has been recognised in profit or loss during the reporting period; and
  - (c) the amount of any reduction in the risk mitigation adjustment due to an excess amount recognised in profit or loss in accordance with paragraph 7.4.14 of IFRS 9.

- 30P When an entity discloses the information required by paragraphs 30N–30O, it shall distinguish between:
- (a) risk mitigation adjustments that relate to the continuing application of risk mitigation accounting; and
  - (b) risk mitigation adjustments that relate to risk mitigation accounting that has been discontinued.

## Nature and extent of risks arising from financial instruments

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### Qualitative disclosures

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- 33A In some cases, an entity whose business and risk management activities have the characteristics specified in paragraph 7.1.4 of IFRS 9 might choose not to apply risk mitigation accounting. In such cases, the entity shall provide a qualitative explanation to enable users of its financial statements to understand how the entity manages its exposure to repricing risk. This explanation shall include information about:
- (a) how the entity's exposure to repricing risk arises;
  - (b) how the entity identifies, aggregates, monitors and manages its exposure to repricing risk; and
  - (c) how the entity reports its activities for managing repricing risk in the financial statements.

...

## Effective date and transition

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- 44QQ *Risk Mitigation Accounting*, issued in [Month, Year], added paragraphs 30D–30P, 33A and 44RR–44SS. An entity that chooses to apply the requirements for risk mitigation accounting in Chapter 7 of IFRS 9 shall apply paragraphs 30D–30P and 44RR–44SS at the same time it applies the requirements for risk mitigation accounting in Chapter 7 of IFRS 9. An entity that carries out risk management activities eligible for risk mitigation accounting (see paragraph 7.1.4 of IFRS 9) but chooses not to apply the requirements for risk mitigation accounting in Chapter 7 of IFRS 9 shall apply paragraph 33A from [date to be determined].
- 44RR In the reporting period in which an entity first applies these amendments, the entity shall disclose information about the effects of the transition to risk mitigation accounting as at the beginning of that reporting period, including:

- (a) information about the underlying portfolios, in a tabular format, such as:
  - (i) the carrying amounts of the financial assets and financial liabilities, or the nominal amounts of future transactions;
  - (ii) the line items in the statement of financial position in which the underlying portfolios are included; and
  - (iii) any hedged exposures included;
- (b) information about the designated derivatives, in a tabular format, such as:
  - (i) the carrying amount of the designated derivatives;
  - (ii) the line item in the statement of financial position in which the designated derivatives are included; and
  - (iii) the nominal amounts of the designated derivatives; and
- (c) information about the cumulative hedge adjustments – included in the carrying amount of previously designated hedged items or in the cash flow hedge reserve – that are related to hedging relationships discontinued for the purposes of applying risk mitigation accounting.

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

- (a) an explanation of the reason for revoking the previous designation; and
- (b) the fair value of financial assets and financial liabilities whose designations have been revoked at the beginning of the reporting period in which the entity first applies the requirements in Chapter 7 of IFRS 9.

## [Draft] Amendments to Appendix A—Defined terms

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

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

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

## [DRAFT] Amendments to other IFRS Accounting Standards

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

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

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

...

#### **Appendix B Exceptions to the retrospective application of other IFRSs**

*This appendix is an integral part of the IFRS.*

...

#### **Risk mitigation accounting**

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

## **IFRS 18 *Presentation and Disclosure in Financial Statements***

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

### **Statement of profit or loss**

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#### **Categories in the statement of profit or loss**

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

...

#### **The financing category**

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

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## Appendix B Application guidance

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### **Classification of gains and losses on derivatives, and designated hedging instruments and designated derivatives**

- B70 Paragraph 47 requires an entity to classify income and expenses in categories in the statement of profit or loss. To apply paragraph 47, an entity shall classify gains and losses included in the statement of profit or loss on a financial instrument designated as a hedging instrument or included as a designated derivative applying IFRS 9 in the same category as the income and expenses affected by the risks the financial instrument is used to manage or mitigate. However, if doing so would require the grossing up of gains and losses, an entity shall classify all such gains and losses in the operating category (see paragraphs B74–B75).
- B71 An entity shall classify gains and losses on an undesignated component of a designated hedging instrument or a portion not included as a designated derivative in the same category as gains and losses on the designated component. An entity shall classify ineffective portions of a gain or loss in the same category as the effective portions.
- B72 An entity shall also apply the requirements in paragraph B70 to gains and losses on a derivative that is not designated as a hedging instrument or not included as a designated derivative applying IFRS 9, but is used to manage identified risks. However, if doing so would require the grossing up of gains or losses (see paragraphs B74–B75) or involve undue cost or effort, the entity shall instead classify all gains and losses on the derivative in the operating category.
- ...
- B74 Paragraphs B70 and B72 prohibit the grossing up of gains and losses on financial instruments designated as hedging instruments or included as designated derivatives and derivatives not designated as hedging instruments or not included as designated derivatives. The grossing up of gains and losses might arise from situations in which:
- (a) an entity uses such financial instruments to manage:
    - (i) the risks of a group of items with offsetting risk positions (see paragraph 6.6.1 of IFRS 9 for the criteria for a group of items to be an eligible hedged item); or
    - (ii) the repricing risk arising from underlying portfolios for risk mitigation accounting (see paragraph 7.2.1 of IFRS 9 for the eligibility criteria for underlying portfolios); and

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

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## **Appendix C**

### **Effective date and transition**

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

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

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

## **IFRS 19 *Subsidiaries without Public Accountability:* *Disclosures***

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

### **Objective**

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- 4 Notwithstanding paragraphs 2–3:
- (a) disclosure requirements in other IFRS Accounting Standards that remain applicable to an entity applying this Standard are specified in this Standard.
  - (b) if an entity applying this Standard applies IFRS 8 *Operating Segments*, IFRS 17 *Insurance Contracts* or IAS 33 *Earnings per Share*, it shall apply all the disclosure requirements in those Standards.
  - (ba) if an entity applying this Standard applies risk mitigation accounting in accordance with Chapter 7 of IFRS 9 *Financial Instruments*, it shall apply all related disclosure requirements in paragraphs 30D–30P of IFRS 7 *Financial Instruments: Disclosures*. If an entity applying this Standard carries out risk management activities applicable to risk mitigation accounting (see paragraph 7.1.4 of IFRS 9) but chooses not to apply risk mitigation accounting, it shall apply all related disclosure requirements in paragraph 33A of IFRS 7.
  - (c) a new or amended IFRS Accounting Standard may include disclosure requirements related to an entity's transition to that Standard. Any relief available to an entity applying this Standard from disclosure requirements about the entity's transition to that new or amended Standard will be set out in the new or amended IFRS Accounting Standard.

## **Appendix A**

### **Effective date and transition**

*This appendix is an integral part of the Standard.*

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

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

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

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

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