Australian Government
Australian Accounting Standards Board

AASB Roundtable Issues Paper
Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging

Purpose of this paper

The purpose of this paper is to identify issues for discussion at the roundtables on IASB Discussion Paper *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging* (IASB DP).

The main focus is on the questions asked by the IASB in the DP about the application of the portfolio revaluation approach (PRA) to dynamic risk management (DRM) activities. In simple terms, items within the scope of the PRA are remeasured for the 'managed risk'. Derivatives are measured at fair value through profit or loss (FVPL). In considering the PRA, participants are encouraged to consider and identify the benefits and costs associated with the PRA. Participants are also encouraged to consider whether alternative accounting approaches might be developed which would be superior to existing accounting.

Key issues for consideration

1 Need for a new approach?

1.1 Do you think there is a need for a specific accounting approach to represent DRM in entities' financial statements? What issues could it address?

1.2 Rather than introducing a new approach, could the existing hedge accounting requirements be modified to address existing issues? If so, how?

2 Application and availability of a new approach

2.3 Should any new approach continue to be elective (similar to hedge accounting and fair value option designations)?

2.4 Should the new approach be available for risks other than interest rate risks (eg foreign currency risk)?

3 Scope

3.1 If the PRA is introduced, do you think the scope of the PRA should include:

(a) all managed portfolios with dynamic risk management (ie. remeasure in full)?;

(b) only portfolios for which the entity has undertaken risk mitigation?

3.2 If (b), would a 'sub-portfolio' approach, or a 'proportional' approach be preferable?

3.3 If (b), how would those portfolios be ring-fenced for accounting purposes and how would the accounting be impacted when items enter and leave the PRA approach?

4 Remeasurement for managed risk

4.1 The IASB DP discusses remeasurement of items which are included in the PRA only for the 'managed risk'

4.2 Do you think that internal transfer pricing transactions could provide a good representation of the managed risk in the managed portfolio for the purposes of applying the PRA? To what extent do you think that risk transferred to asset-liability management (ALM) via transfer pricing is representative of the risk that exists in managed portfolios?

5 Accounting based on expected behaviour (rather than contractual terms)

5.1 The IASB DP discusses a number of items that might be accounting for in the PRA using expected behaviour rather than contractual terms. These include:

- Core demand deposits
- Prepayable items
- Forecast (pipeline) transactions

5.2 Do you think these items, if included in the PRA, should be remeasured based on expected cash flows rather than contractual cash flows?

5.3 If yes, how could concerns about the extent of discretion in management judgement and the reliability of the remeasurement (including for audit and regulatory purposes) be addressed?

6 Equity Model Book

6.1 The IASB's DP discusses accounting for an equity model book (EMB).

6.2 Do you think, in a PRA approach, it would be appropriate to include a remeasurement for a deemed EMB?

7 Use of other comprehensive income (OCI)

7.1 Do you think that an approach incorporating the use of OCI should be considered?

Other issues for consideration

8 Other issues

8.1 Do you have any other issues that you would like to raise? For example;

(a) interaction of PRA with regulatory requirements;

(b) interaction between PRA and other accounting standards (eg AASB 9, AASB 121).