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Mr Sam Woods
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(submitted via the IASB website)

XX November 2026

Dear Mr Woods,

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

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on Exposure Draft IASB/ED/2025/1 *Risk Mitigation Accounting – Proposed amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures*.

The AASB appreciates the IASB's longstanding efforts to address the limitations of existing hedge accounting requirements for dynamically managed open portfolios and to develop an accounting solution that better reflects how entities manage repricing risk in practice.

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

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

(a) no Australian banks that participated in the outreach indicated an intention to adopt the proposed risk mitigation accounting (RMA) model;

(b) Australian banks indicated that they are unlikely to change their existing hedge accounting practices, which have been developed and embedded over time to address limitations in the accounting requirements, alongside established processes for communicating the resulting reporting effects to investors;

(c) stakeholders raised significant concerns about whether the proposed RMA model appropriately reflects how repricing risk is managed in practice. In particular, they identified potential differences between the exposures, assumptions and risk measures used for RMA and those used in banks' established risk management and prudential processes;

(d) stakeholders identified significant practical application and auditability issues, including those relating to the risk mitigation objective, repricing time bands, benchmark derivatives, unexpected changes in open portfolios, the excess assessment and transition; and

(e) stakeholders were not convinced that the proposed RMA model would provide materially more useful information than their existing practices to justify the implementation and ongoing costs and operational changes associated with adopting the model.

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The AASB acknowledges the complexity of developing an accounting model that appropriately reflects the dynamic management of repricing risk. However, given that a key objective of the project is to better reflect in financial statements how entities manage repricing risk, the concerns raised by Australian stakeholders about the proposed model's alignment with actual risk management practices are particularly significant. The extent of those concerns, together with the practical application and auditability issues identified, suggests that substantial further work may be required to address them. The Appendix sets out the stakeholder feedback underlying these concerns.

The AASB is also concerned that substantial further work on the proposed RMA model may not necessarily result in its adoption by Australian banks, particularly given their established hedge accounting and investor communication practices. Accordingly, there is a risk that significant further resources could be devoted to developing the model without commensurate benefits in terms of the level of adoption or improvements in financial reporting, at least in Australia.

In light of these considerations, the AASB suggests that the IASB consult with stakeholders on the relative priority of the RMA project within its broader work plan, including the extent to which further work on the project should be prioritised relative to other stakeholder needs.

If you have any questions regarding this letter, please contact Patricia Au, International and Public Sector Technical Lead (pau@aasb.gov.au).

Yours sincerely,

Dr Keith Kendall

Chair – AASB

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APPENDIX

This Appendix sets out stakeholder feedback, including concerns about the proposed RMA model's alignment with how repricing risk is managed in practice, its practical application and auditability, and the usefulness of the resulting information. The feedback is organised around the main themes arising from the AASB's outreach rather than the individual questions in the Exposure Draft.

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

No Australian banks that participated in the AASB's outreach indicated an intention to adopt the proposed voluntary RMA model. Feedback indicated that banks are unlikely to change their existing hedge accounting practices, which have been developed and embedded over time to address limitations in the accounting requirements and are supported by established investor communication processes.

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

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

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

2. Alignment with risk management and prudential requirements

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

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

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

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

Concerns were also raised about the prudential implications of presenting the risk mitigation adjustment as an asset or liability when the adjustment does not itself meet the definition of an asset or liability. Depending on its treatment under applicable prudential requirements, the risk mitigation adjustment could affect the calculation of regulatory capital, risk-weighted assets or bank levies.

3. Scope of eligible items and designated derivatives

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

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

They questioned whether the eligibility requirements appropriately capture the instruments considered in managing repricing risk and suggested that additional clarification may be helpful in identifying designated derivatives when derivatives are managed collectively. They also noted that any expansion of scope would need to avoid creating new accounting mismatches, particularly when an underlying item is measured at fair value through profit or loss.

4. Practical application and auditability

Risk mitigation objective and repricing time bands

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

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

Clarification was also sought regarding the intended presentation of the risk mitigation adjustment and its release in profit or loss, including whether amounts should be presented gross or net across applications of RMA and how that presentation relates to interest income and interest expense.

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Construction and maintenance of benchmark derivatives

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

The roundtable discussions indicated that the IASB intends benchmark derivatives to be constructed on a layered basis, with new benchmark derivatives representing incremental changes rather than the entire position being reset. Stakeholders considered that this intended operation should be articulated more explicitly in the requirements and illustrated using examples reflecting active portfolio management practices. They also considered that further explanation would be helpful regarding when the terms of an actual derivative may inform the construction of a benchmark derivative and when differences must be reflected as misalignment.

Unexpected changes and release of the risk mitigation adjustment

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

Stakeholders identified application questions concerning:

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

Excess assessment

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

They considered that further clarification would be helpful regarding the indicators that trigger a quantitative excess assessment, how temporary fluctuations may be distinguished from significant changes expected to persist, and how future transactions and expected portfolio replacement should be considered. Questions were also raised about whether the prohibition on reversal remains appropriate if the measurement can capture temporary or unintended effects.

Auditability

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

In light of these challenges, stakeholders considered that the proposals may benefit from a minimum operational and evidential baseline while retaining sufficient flexibility to accommodate different risk management practices. They also noted that guidance addressing governance, documentation,

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model validation, data controls and evidential expectations could assist preparers and auditors in applying the model consistently.

5. Transition

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

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

6. Disclosures

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

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

7. Insurance entities

Feedback from Australian insurance entities was limited and therefore does not provide a basis for drawing a broad conclusion about the applicability of the proposed RMA model to that sector.

The feedback received indicated that many Australian general insurers' hedging activities are limited to borrowings and foreign currency exposures while financial asset investments are typically at fair value through profit or loss and movements in insurance contract liabilities and assets are recognised directly in profit or loss. This limits the relevance or applicability of the proposed RMA model to these insurers. The feedback received also indicated that Australian insurers currently apply the hedge accounting requirements in IFRS 9.

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

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