26 November 2026
Agenda Paper 5

UKEB
UK Endorsement Board

Risk Mitigation Accounting–Proposed Amendments to IFRS 9 and IFRS 7: Final Comment Letter

Executive Summary

Project Stage								
IASB	Research / Pipeline	Discussion Paper	Redeliberation	Exposure Draft	Redeliberation	Final Standard	Post Implementation Review	
UKEB	Research / Influencing	Research / Influencing	Monitoring	Influencing	Monitoring	Endorsement	Influencing	UKEB Post Implementation Review

Project Type

Influencing

Project Scope

Significant

Purpose of the paper

The purpose of this paper is to obtain the Board's:

- approval to issue a Final Comment Letter (FCL) (Appendix A) in response to the IASB's Exposure Draft (ED) *Risk Mitigation Accounting-Proposed Amendments to IFRS 9 and IFRS 7*;
- approval to publish the Feedback Statement (Appendix B); and
- feedback on the [Draft] Due Process Compliance Statement (DPCS) (Appendix C).

Summary of the Issue

The IASB published the Exposure Draft (ED*) Risk Mitigation Accounting–Proposed amendments to IFRS 9 and IFRS 7* with a revised[1] comment deadline 30 November 2026.

As part of its influencing work, the UKEB published its Draft Comment Letter (DCL) and related Invitation to Comment on 28 April 2026 for public consultation until 21 October 2026.

In addition, over the course of the ED comment period, the Secretariat has also conducted:

1 The IASB's ED original comment deadline was 31 July 2026. In May 2026 the IASB decided to extend its deadline to 30 November 2026. As a result, the UKEB extended its DCL comment period from 28 June to 21 October 2026.

a) Desk-based research; and

b) Stakeholder outreach, including hosting two UKEB roundtables (see the Feedback Statement (Appendix B)) and discussions with key stakeholders.

This work has informed technical analyses, Board discussions and decisions, where applicable, at eight Board meetings over the course of this period, culminating in the draft Final Comment Letter (Appendix A) and accompanying deliverables presented to the Board at this meeting.

In addition, to the points raised in the draft Final Comment Letter (Appendix A), the Secretariat would like to bring to the Board's attention the following items.

Call for re-exposure in a complete package in the draft FCL

The draft FCL includes a recommendation for the IASB to re-expose any substantially revised proposals in a complete package before finalising the amendments. We believe such an approach is strongly preferred because:

a) the uncertainty over key elements of the proposals has limited the extent to which the current round of field-testing exercises could provide conclusive evidence;

b) these key elements which will likely require significant revisions are highly interconnected with each other and with the rest of the model; and

c) stakeholders, especially investors and other users, need an opportunity to assess a revised model as an integrated package rather than as a series of individual refinements.

In particular, we recommend that the IASB re-expose for comment those aspects of the model that have been substantially revised, while providing a complete draft of the amended requirements to enable stakeholders to assess the proposals in their full context and, where relevant, undertake further field testing. In our view, this is consistent with the approach the IASB took to consult on its Revised Exposure Draft for IFRS 17 *Insurance Contracts* in 2013.

Such an approach would allow the IASB to continue building on the existing proposals and evidence obtained to date, while providing stakeholders with an opportunity to evaluate the revised package holistically. This would help ensure that feedback is informed by an understanding of how the revised elements interact within the model as a whole.

We do not view this recommendation as calling for a fundamental reconsideration of the project or a complete rewriting of the proposals. Rather, it is intended to support the efficient development of a robust and operable model by enabling stakeholders to focus their assessment on those areas that have changed significantly, while considering those changes within the context of the overall package of amendments.

Alternative approach to the Feedback Statement

The Feedback Statement is presented in a different format (Word) to those developed for other projects (PowerPoint) [e.g. for *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures*].

The Secretariat believes this alternative format to be more suitable for UKEB projects going forward, in particular those that are significant, given the:

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a) Improved readability and accessibility: The format allows for more consistent use of readable font sizes, spacing and document structure. It also accommodates more detailed explanations of stakeholder feedback and the Board's conclusions without overcrowding content or requiring significant condensation of technical information.

b) More efficient drafting and review: Feedback Statements are typically developed and reviewed through multiple iterations. Preparing the final publication in the same format used throughout drafting and review eliminates the need to transfer content into a separate publication format at the end of the process, reducing duplication of effort and the risk of introducing errors during reformatting.

c) Better suited to comprehensive records of stakeholder feedback. For projects that generate extensive consultation responses, the format provides greater flexibility to present feedback, thematic analysis and the Board's responses in a clear and structured manner while maintaining an appropriate level of detail.

Decisions for the Board

1. Does the Board agree with the call for re-exposure of substantially revised aspects of the proposals in a complete package in the draft FCL?
2. Subject to addressing any comments raised at this meeting, does the Board approve:
   a) The FCL (Appendix A) for submission to the IASB and publication on the UKEB website?
   b) The Feedback Statement (Appendix B) for publication on the UKEB website?
   c) The draft DPCS (Appendix C).
3. Does the Board agree that the Secretariat should use the format adopted for Appendix B when preparing Feedback Statements for future UKEB projects, particularly those involving significant stakeholder engagement or complex technical issues?

Recommendation

The Secretariat recommends that, subject to any amendments agreed at this meeting, the Board approves:

a) The FCL (Appendix A) for submission to the IASB and publication on the UKEB website?

b) The Feedback Statement (Appendix B) for publication on the UKEB website?

c) The draft DPCS (Appendix C)?

d) The alternative approach to presenting the Feedback Statement (Appendix B) for UKEB projects, in particular those that are significant, going forward?

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Appendices

Appendix A [Draft] Final Comment Letter

Appendix B Feedback Statement

Appendix C [Draft] Due Process Compliance Statement

Background: *Risk Mitigation Accounting–Proposed Amendments to IFRS 9 and IFRS 7*[2]

The implementation of IFRS 9 *Financial Instruments* aimed to introduce improved hedge accounting requirements. However, it did not provide a solution for complex risk management situations where risks are managed dynamically. In such cases entities were permitted to continue applying IAS 39 *Financial Instruments: Recognition and Measurement*[3].

The IASB has noted that entities find it challenging to account for their dynamic risk management activities. The current requirements are not designed for such situations, and the constraints make it difficult for entities to faithfully represent the economic effect of such risk management activities[4].

In response, on 3 December 2025, the IASB published the Exposure Draft (ED) IASB/ED/2025/1 *Risk Mitigation Accounting–Proposed amendments to IFRS 9 and IFRS 7*, with a revised comment period ending on 30 November 2026. The ED aims to provide a more faithful representation of the entity's economic position for such risk management activities. The scope of the ED is limited to interest rate repricing risk[5], in instances where entities meet the criteria to demonstrate that this risk is being managed dynamically.

Consistent with the existing hedge accounting requirements of IFRS 9, the proposed requirements are voluntary. The IASB proposes to withdraw IAS 39 when the proposed amendments are available for use.

The IASB is also conducting field tests of the proposals with results due on 30 November 2026.

A summary of the proposed changes can be found in the IASB's snapshot document.

2 Exposure Draft: *Risk Mitigation Accounting—Proposed amendments to IFRS 9 and IFRS 7*

3 See paragraphs 6.1.3 and 7.2.21 of IFRS 9.

4 This is noted by the IASB in paragraph IN7 of the ED.

5 Repricing risk is defined as a type of interest rate risk that exposes an entity to variability in the cash flows from, and the fair value of, financial instruments, arising from differences in:
a) the timing of when financial instruments reprice to benchmark interest rates; and
b) the amount of financial instruments that reprice in a particular period.

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Next Steps

1. The IASB's deadline for submission of comment letters is 30 November 2026.

2. Subject to the Board's approval of the FCL, the Feedback Statement and the draft DPCS as well as addressing any amendments agreed at this meeting, the Secretariat will submit the FCL to the IASB and publish both the FCL and the Feedback Statement on the UKEB website.

3. The Secretariat will also provide a final DPCS to the Board for noting at its 10 December 2026 meeting.

4. The Secretariat expects to continue engaging with UK stakeholders as this project moves into its monitoring phase.

Timeline

5. The expected high-level timeline of this project, including key activities and milestones, is as follows:

Timeline:	
9 December 2025	Board Education Session 1: Introduction to banks and risk management
January 2026	• Board Education Session 2: Introduction to the Risk Mitigation Accounting model Part A • Project Initiation Plan for Board approval
February 2026	• Board Education Session 3: Introduction to the Risk Mitigation Accounting model Part B • Preliminary technical Board discussion
26 March 2026	Draft Comment Letter for Board consideration
28 April 2026	Draft Comment Letter (and related Invitation to Comment) published for consultation
17 September 2026	Project Update: Update on stakeholder feedback
21 October 2026	Draft Comment Letter: Deadline for comments
22 October 2026	Technical Paper: Exploring approaches to key issues identified (and an update on stakeholder feedback including verbal update on Comment Letters received)

24 November 2026	Board Education Session 4: Three key issues and Perspectives on smaller banking entities
26 November 2026	Board review of Final Comment Letter, Feedback Statement, draft Due Process Compliance Statement
November 2026	Final Comment Letter submitted to IASB (deadline 30 Nov. 2026)
10 December 2026	Due Process Compliance Statement for noting
Q1 2027	Summary of additional feedback if any, including field test results, for Board consideration

26 November 2026
Agenda paper 5: Appendix A

UKEB
UK Endorsement Board

Mr Sam Woods
Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

[XX November 2026]

DRAFT FOR DISCUSSION

Dear Mr Woods

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

1. The UK Endorsement Board (UKEB) welcomes the opportunity to comment on the International Accounting Standards Board's (IASB) Exposure Draft (ED) *Risk Mitigation Accounting–Proposed amendments to IFRS 9 and IFRS 7*.

2. To develop our response, our work included in-house research and consultations with stakeholders in the UK, including preparers, accounting firms and – to the extent it has proven possible – investors and other users of financial statements. UK stakeholder feedback, including the results of fieldwork, has informed our assessment and conclusions.

3. The UKEB supports the IASB's objectives of better representing in the financial statements the effects of an entity's activities to mitigate repricing risk and providing more useful information about how, and the extent to which it manages that risk. However, the evidence that we have so far been able to gather from UK stakeholders indicates that the current proposals do not yet successfully deliver on those objectives.

4. In particular, it remains unclear whether the proposals sufficiently align with entities' repricing risk management activities so that they provide a faithful representation of the economic effects in the financial statements in a manner that is operationally feasible for preparers. In addition, without clear sight of the financial information likely to be delivered under the proposals – which would be a helpful output of a successful field testing process – it has not been possible to test how decision-useful the resulting financial reporting would be for investors and other users of financial statements.

5. We believe the IASB should further develop its proposals to ensure they achieve their objectives.

Key aspects that need further consideration

6. The UKEB continues to support the IASB developing a single accounting solution to replace the hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement*. Entities face significant challenges applying the existing hedge accounting requirements in IFRS 9 *Financial Instruments* and IAS 39 to faithfully represent the economic effect of dynamic and complex risk management activities in financial statements. Therefore, it is essential that in further developing its proposals, the IASB ensures that any model is operationally viable and any resulting financial information is decision-useful for investors and other users of financial statements.

7. Our assessment suggests the following three interrelated aspects of the proposed model require the IASB's particular attention in further developing the proposals.

8. First, the IASB should reconsider whether requiring assessment of the risk mitigation objective within each repricing time band appropriately reflects common risk management practices. Feedback from UK stakeholders suggests that entities may accept limited duration mismatches while still achieving risk mitigation outcomes that are highly effective overall. The IASB should therefore explore whether the model could permit a limited degree of ineffectiveness provided that:

   a) it is consistent with the entity's actual risk management strategy;

   b) it is subject to appropriate guardrails; and

   c) the resulting ineffectiveness is transparent to investors and other users of financial statements.

9. Secondly, the IASB should further develop the proposed approach to benchmark derivatives. Whilst benchmark derivatives are fundamental to the operation of the model, stakeholders have questioned whether they can be constructed and adjusted in an operationally feasible manner across the more common risk management strategies and different types of entities. Further testing is required to determine whether a workable approach can be developed without imposing disproportionate operational complexity and cost.

10. Thirdly, the IASB needs to reconsider the design of the 'backstop'. Whilst this would ultimately depend on the revised requirements on the benchmark derivatives, we believe that the 'backstop' must be designed such that it faithfully represents the degree of ineffectiveness of an entity's risk management activities.

11. We note that these issues do not affect all entities in the same way. Large and more complex institutions have highlighted concerns regarding the operational feasibility of aspects of the proposed model, such as the tracking and adjustment

of benchmark derivatives. While some smaller institutions have raised similar concerns, the source of such concerns may be different. For example, these smaller entities may have less complex risk management strategies but are often resource constrained and reliant on third-party systems and service providers. This means that while a standardised approach may be more attractive to such entities, the cost-benefit assessment of the current proposals may be disproportionately weighted against them.

12. We therefore believe the IASB must continue to develop the model with a particular focus on ensuring that any revised solution:

    a) is proportionate for entities of different sizes and levels of complexity; and

    b) provides transparent information that enables investors and other users of financial statements to understand both the extent to which risk mitigation activities are highly effective and the causes of any ineffectiveness.

Scalability and proportionality

13. The UKEB believes that scalability and proportionality should be a key consideration in the further development of the model. The evidence gathered through our outreach suggests that the challenges facing smaller institutions differ from those facing larger organisations as noted above. Accordingly, the IASB should further develop a solution that is scalable to entities of different levels of complexity while ensuring that it can deliver an appropriate degree of comparability and transparency.

14. Any such approach should continue to produce decision-useful information for investors and other users of financial statements while avoiding unnecessary operational complexity. In our view, the objective should be a solution that works for entities of varying sizes and risk management sophistication, rather than one that is optimised for only part of the population. For example, the IASB can consider simplifying and/or standardising certain aspects of the proposed model for entities with less complex risk management strategies.

Withdrawal of IAS 39

15. Following the UK's exit from the European Union, the IAS 39 carve-out relating to fair value hedge accounting for portfolio of hedges of interest rate risk was incorporated within UK adopted international accounting standards. The UKEB understands that large UK banks do not generally apply the provisions in the carve-out (in some cases due to financial reporting requirements in certain jurisdictions[1]) but a number of smaller organisations in the UK currently utilise such provisions. There is limited guidance and disclosure requirements around the

[1] For example, the U.S. Securities and Exchange Commission permits foreign private issuers to present financial statements prepared in accordance with IFRS 'as issued by the IASB'.

carve-out, which has hindered comparability and transparency of financial information.

16. The UKEB supports the IASB's objective of replacing IAS 39 with a single international accounting solution. However, the withdrawal of IAS 39 should be preceded by a workable replacement having been developed and field tested comprehensively to confirm operational viability, and shown to provide useful information to investors and other users of financial statements. Accordingly, our support for the withdrawal of IAS 39 is linked to the successful development and testing of a replacement solution.

17. We would like to highlight to the IASB the importance of assessing the proposals from the perspective of investors and other users of financial statements. While there is strong interest in the objective of the project, there remains only limited evidence as to whether the proposed model would improve decision-useful information for investors and other users of financial statements.

18. This reflects the fact that important aspects of the model remain uncertain and, consequently, it has been difficult for investors and other users to perform a comprehensive assessment of the information and disclosures that would result from the proposals. As a result, it is currently difficult to determine whether the proposals would improve users' understanding of:

    a) whether risk mitigation activities have been effective;

    b) the reasons why ineffectiveness has arisen; and

    c) whether any ineffectiveness reflects changing economic conditions or the way in which management has undertaken its risk management activities.

19. We therefore believe the IASB must continue engaging closely with users and should not finalise the model until users have been able to assess illustrative reporting outputs produced from a revised and integrated version of the proposals.

Re-exposure and further field testing

20. The UKEB would like to highlight that a number of UK stakeholders participated in field testing of the proposed requirements and made every effort to complete the exercise. However, the uncertainty surrounding several significant features of the model has limited the extent to which those field testing exercises could provide conclusive evidence regarding the operational feasibility of the proposals as a whole and the usefulness of the reporting outputs to investors and other users of financial statements.

21. We believe this limitation is particularly significant because the key elements of the model are highly interconnected. Changes to benchmark derivatives, repricing time bands or the excess test are likely to have consequences throughout the remainder of the model and for the resulting disclosures.

22. Consequently, we expect that revisions arising from stakeholder feedback may be sufficiently significant that stakeholders need an opportunity to assess a revised model as an integrated package rather than as a series of individual refinements.

23. The UKEB recommends that the IASB re-expose for comment those aspects of the model that have been substantially revised, while providing a complete draft of the amended requirements. This will enable stakeholders to assess the proposals in their full context and, where relevant, undertake further field testing. In our view, this is consistent with the approach the IASB took to consult on its Revised Exposure Draft for IFRS 17 *Insurance Contracts* in 2013.

24. Re-exposure and further field testing would provide the IASB with important new information by enabling preparers to:

    a) assess whether a revised model is operationally feasible across different risk management strategies and entity sizes; and

    b) identify unintended consequences and implementation challenges.

25. Such an approach would allow the IASB to continue building on the existing proposals and evidence obtained to date, while providing stakeholders with an opportunity to evaluate the revised package holistically. This would help ensure that feedback is informed by an understanding of how the revised elements interact within the model as a whole.

26. We do not view this recommendation as calling for a fundamental reconsideration of the project or a complete rewriting of the proposals. Rather, it is intended to support the efficient development of a robust and operable model by enabling stakeholders to focus their assessment on those areas that have changed significantly, while considering those changes within the context of the overall package of amendments.

27. The revised model should also be capable of being applied proportionately by entities with differing repricing risk profiles, risk management strategies and operational capabilities.

28. The IASB should use any re-exposure and associated field testing to engage more fully with investors and other users of financial statements. In particular, users should be provided with worked examples and illustrative reporting outputs from the revised model, enabling them to assess whether the resulting information is more decision-useful than existing reporting outcomes. The UKEB does not believe sufficient evidence currently exists to make that assessment.

29. In the Appendix to this letter, we also include a number of potential alternatives and suggestions identified during stakeholder outreach. These suggestions have not yet been comprehensively tested and should not be viewed as fully developed solutions. Further work and field testing would be required before any conclusions could be reached on their suitability.

Transition

30. We support prospective application. However, given the complexity of the proposed RMA, we believe that a significantly longer than normal timeline for transitioning to a revised accounting model (or to the general hedge accounting requirements under Chapter 6 of IFRS 9 if an entity elected to do so) will be warranted, with early adoption permitted, once the amendments are finalised.

31. We also believe the IASB must carefully consider the transition requirements and provide sufficient application guidance, such as the treatment for off-market derivatives on transition date, given the magnitude and complexity of existing dynamic repricing risk management strategies.

Insurance entities

32. We understand that UK insurers typically hedge their capital position on a regulatory basis and, unlike UK banks, their IFRS financial statements do not form the starting point for their regulatory position.

33. We note that the current proposals have not been designed to accommodate such risk mitigation strategies and therefore believe that they are unlikely to achieve the objective of better representing in the financial statements the economic effects of UK insurers' repricing risk management activities.

34. We believe that, if practicable, the IASB should seek a solution capable of meeting the needs of both banks and insurers and the users of their financial statements.

35. Nevertheless, if developing a comprehensive solution for insurers would significantly delay progress, we would encourage the IASB to prioritise the development of a workable solution for the banking sector while continuing its work with insurance stakeholders in parallel.

36. For the avoidance of doubt, regardless of the scope of the proposals, we continue to emphasise to the IASB the importance of field testing, scalability and sufficient user engagement in trying to develop a high-quality solution.

Interaction with other IASB projects

37. Given the interconnectedness of the hedging requirements, and in particular the disclosure requirements, we firmly believe that the IASB's assessment of potential revisions to the current proposals needs to take into consideration stakeholder feedback received as part of its *Post-Implementation Review of IFRS 9 Hedge Accounting*.

38. We also recommend the IASB considers how this project would interact with other projects such as its upcoming *Post-implementation review of IFRS 17 Insurance Contracts*.

39. Further detail and responses to the IASB's specific questions about the ED are included in the Appendix to this letter.

40. If you have any questions about this response, please contact the project team at UKEndorsementBoard@endorsement-board.uk.

Yours sincerely

Paul Lee
Chair
UK Endorsement Board

About the UKEB: The UK Endorsement Board is responsible for endorsement and adoption of IFRS Accounting Standards for use in the UK and therefore is the UK's National Standard Setter for IFRS Accounting Standards. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations.

About IFRS in the UK: Approximately [11,000] entities in the UK prepare their financial statements in accordance with IFRS Accounting Standards[2]. This figure is unconsolidated and includes both listed and unlisted entities. Of these, approximately [1,200] entities listed on UK regulated markets prepare their financial statements in accordance with IFRS Accounting Standards[3]. This figure comprises entities listed on the London Stock Exchange on both the Main Market and the Alternative Investment Market (AIM), and entities listed on the Aquis Exchange.

About this letter: This letter is intended to contribute to the Foundation's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended international accounting standards undertaken by the UKEB.

2 Source: HMRC, October 2025.
3 Source: UKEB estimate based on LSEG Workspace data, November 2026.

Appendix A: Questions on IASB/ED/2025/1 *Risk Mitigation Accounting–Proposed amendments to IFRS 9 and IFRS 7*

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

The IASB proposes that:

a) the objective of risk mitigation accounting be for financial statements to represent the economic effect of an entity's risk management activities if the entity manages repricing risk on a net basis.

b) risk mitigation accounting be applied on a voluntary basis. However, an entity would be permitted to apply risk mitigation accounting if, and only if, the entity mitigates repricing risk on a net basis and the entity's business and risk management activities have the characteristics specified in paragraph 7.1.4.

c) an entity be required to document formally how it will apply risk mitigation accounting.

Paragraphs BC11–BC37 of the Basis for Conclusions explain the IASB's rationale for these proposals.

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

Objective

A1. Interest rate risk management practices differ significantly between entities, including the metrics used to measure risk, the time horizons over which risk is assessed and the extent to which positions are managed on a portfolio basis. Although there are common features in approaches to interest rate risk management, there is no single, consistent approach for managing repricing risk across banks.

A2. Historically, entities have faced significant challenges applying the existing hedge accounting requirements to faithfully represent the economic effect of dynamic and complex risk management activities in financial statements.

A3. We therefore support the IASB's objectives of better representing in the financial statements the effects of an entity's activities to mitigate repricing risk[4] and providing more useful information about how, and the extent to which it manages that risk.

A4. However, the evidence gathered to date from UK stakeholders indicates that the current proposals do not yet successfully deliver on those objectives. We are not convinced the proposals align sufficiently well with the commonly used risk management strategies in the UK. Such misalignment gives rise to challenges likely to arise in applying the requirements as currently proposed.

A5. This letter suggests key aspects of the proposals that need further consideration by the IASB. [See Questions 2 – 11]. These issues do not affect all entities in the same way and the UKEB believes that scalability and proportionality should be a key consideration in the further development of the model.

A6. We also would like to highlight to the IASB the importance of assessing the proposals from the perspective of investors and other users of financial statements. While there is strong interest in the objective of the project, there remains only limited evidence as to whether the proposed model would improve decision-useful information for investors and other users of financial statements.

A7. The IASB must continue to develop its proposals with a particular focus on ensuring that any revised solution:

a) is proportionate for entities of different sizes and levels of complexity; and

b) provides transparent information that enables investors and other users of financial statements to understand both the extent to which risk mitigation activities are highly effective and the causes of any ineffectiveness.

Credit risk

A8. The proposals make it clear that the effect of credit risk should not dominate the changes in the fair value of the designated derivatives. However, the proposals are

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4 Repricing risk is defined in the IASB's ED as a type of interest rate risk that exposes an entity to variability in the cash flows from, and the fair value of, financial instruments, arising from differences in:
a) the timing of when financial instruments reprice to benchmark interest rates; and
b) the amount of financial instruments that reprice in a particular period.

silent in relation to the consideration of the effects of credit risk in the determination of an entity's net repricing risk exposure[5].

A9. We believe the IASB should clarify its intended approach to credit risk. In particular, it should explain whether, and if so how, the effects of credit risk are expected to be reflected in the determination of the net repricing risk exposure. Without such clarification, there is a risk of inconsistency in practice and uncertainty regarding the interaction between the proposed requirements and other areas of IFRS Accounting Standards.

A10. In addition, in further developing its proposals the IASB must ensure that a revised model is compatible with relevant existing requirements in IFRS Accounting Standards, such as those in IFRS 9 in relation to the determination of the Effective Interest Rate of financial instruments and Expected Credit Losses for financial assets. This is particularly important given the IASB has an active project on Amortised Cost Measurement.

Voluntary application

A11. We support voluntary application for entities that meet the criteria to be in scope of the proposals. The approach proposed is complex and entities should be allowed to consider the likely costs and benefits of applying the proposals. Such an approach would be consistent with the existing voluntary application of hedge accounting requirements in IFRS 9 and IAS 39.

Scope

A12. The scope of the proposed amendments is entities that manage repricing risk on a net basis using derivatives. Entities including banks, insurers and corporates with large treasury functions could fall within this scope.

A13. While we support an approach that is not restricted to a specific industry, we are aware that the proposed model was developed primarily with banks' risk management practices in mind. Feedback from UK stakeholders, particularly insurers, suggests that significant aspects of the proposed model may not reflect how repricing risk is managed for insurance activities. We understand that UK insurers typically hedge their capital position on a regulatory basis and, unlike UK banks, their IFRS financial statements do not form the starting point for their regulatory position. We believe that, if practicable, the IASB should seek a solution

5 Given the existence of regulatory requirements in the UK for central clearing of over-the-counter derivatives, the potential credit risk arising from designated derivatives is expected to be far less significant compared to the potential credit risk arising from an entity's net repricing risk exposure.

capable of meeting the needs of both banks and insurers and the users of their financial statements.

A14. Nevertheless, if developing a comprehensive solution for insurers would significantly delay progress, we would encourage the IASB to prioritise the development of a workable solution for the banking sector while continuing its work with insurance stakeholders in parallel (See Question 11 below).

Interaction with other IASB projects

A15. We believe the IASB's re-deliberations on RMA should be informed by findings arising from the *Post-implementation Review of IFRS 9 Hedge Accounting* to the extent those findings are relevant since:

a) some features in the proposed RMA model draw from existing hedge accounting requirements under Chapter 6 of IFRS 9;

b) certain aspects of the proposed amendments are intended to work together with Chapter 6 hedge accounting (e.g. hedged exposures); and

c) the disclosure requirements in the proposals must work together with the requirements in IFRS 7 *Financial Instruments: Disclosures* in order to communicate a holistic overview of how affected entities manage risks (see also Question 10).

A16. We also recommend the IASB considers how this project would interact with its upcoming *Post-implementation Review of IFRS 17 Insurance Contracts*. (See also Question 11).

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.

Underlying portfolios

A17. Through stakeholder outreach in the UK, we understand that some entities in the banking sector currently rely on proxy hedge accounting[6] or the IAS 39 carve-out provisions in this area, neither of which provides sufficient transparency of financial reporting. Therefore, we generally support the proposed amendments related to underlying portfolios, including allowing the inclusion of financial instruments that give rise to repricing risk only on a portfolio basis (e.g. demand deposits). Our understanding is that there is also broad support from the banking sector for these inclusions within the proposed RMA model. However, we think there are certain aspects below which can be clearer.

Potential improvement on the clarity of the proposals

Future transactions

A18. Our understanding of the proposed amendments is that the list of future transactions that are eligible for inclusion in the underlying portfolios described in paragraph 7.2.4 of the ED is meant to be an exhaustive list. Therefore, we believe the clarity of this paragraph can be improved by replacing the word "include" with "are".

Pipeline mortgages

A19. We understand that there is typically a swap programme in place to determine both the rate and the term underpinning fixed rate mortgage offers made in the UK. It is in this context that we agree with the proposed amendments that such forecast transactions can be treated as fixed rate exposures, even though the bank may not yet be committed to the rate, to the extent their volume meets the highly probable criterion on a portfolio basis. This is based on our understanding of paragraph

6 Proxy hedging is a colloquial reference to the use of designations of hedging relationships that do not exactly represent an entity's actual risk management [IFRS 9 Basis for Conclusions BC6.96].

B7.2.5 of the ED and paragraph BC55 of the Basis for Conclusions. This is also the approach that appears to be taken in the Illustrative Examples[7], particularly paragraph IE193(b) in Example 24, although it may be unrealistic to illustrate the pipeline mortgages meeting the highly probable criteria a year in advance.

A20. This treatment is not clear from the wording of the ED. We also believe that it would be clearer if the above context were provided in the ED as an example of when a fixed rate future transaction is highly probable.

Demand deposits

A21. We consider that the Illustrative Examples, specifically paragraph IE197(d), can be clarified by explaining that a portion of customer deposits repayable on demand can be treated as fixed rate exposures to the extent they are expected to be insensitive to interest rate changes over the time period used in the entity's risk management strategy.

'Equity modelling'

A22. Based on stakeholder outreach in the UK, we understand that banks typically view equity as a stable source of funding and model it as part of their repricing risk management strategies. We understand that such 'equity modelling' may differ between banks and could involve the determination of repricing risk arising from both variable-rate and fixed-rate exposures.

A23. As drafted, it is not clear if paragraph B7.2.17 of the ED is intended to restrict the type of 'equity modelling' allowed (i.e. for quantifying the repricing risk arising from variable-rate exposures only) to determine the net repricing risk exposure. Therefore, we recommend that the IASB provide additional clarity in this respect.

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

7 Note, as the Basis for Conclusions and the Illustrative Examples do not form part of the mandatory sections of IFRS Accounting Standards, they are not to be endorsed in the UK.

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.

A24. We have some concerns in relation to the proposed use of time bands, which are presented as part of our response to Question 5 below.

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.

A25. We generally support the IASB's proposals in relation to designated derivatives, noting that they are broadly similar to existing hedge accounting requirements for hedging instruments under Chapter 6 of IFRS 9.

A26. However, we think there is a lack of clarity on how RMA functions when non-linear designated derivatives, such as options, are used to mitigate repricing risk. For example, there does not appear to be guidance on how the time value of options are accounted for under the proposed model.

A27. We also believe it is unclear on how the proposed RMA model is intended to work in groups at a consolidated level, especially where RMA may be applied at an entity level with the use of intragroup derivatives. Whilst this is perhaps a secondary consideration at this stage given the concerns raised with the proposed model on a standalone basis, we believe that it is important for the IASB to provide additional guidance and worked examples in this area when developing a revised model.

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.

Proposed use of time bands

A28. We support a risk mitigation objective that is consistent with the amount of repricing risk the entity mitigates using designated derivatives. However, we have reservations in relation to the proposed requirement in paragraph 7.4.1, that the risk mitigation objective does not exceed the amount of net repricing risk exposure in *'each'* repricing time band.

A29. Stakeholder feedback, informed by their fieldwork results, indicates that the proposed requirement would not allow those stakeholders to reflect their organisation's risk management strategy in certain circumstances. We understand that this issue is not exclusive to a specific type of risk management strategy, but it could arise under different risk management approaches.

A30. For example, an entity may intentionally accept a limited duration mismatch between a repricing risk exposure and the designated derivative used to mitigate that exposure. Such mismatches may arise for operational, liquidity or economic reasons and do not necessarily mean that the risk mitigation strategy is not economically highly effective.

A31. In these circumstances an assessment per time band could create the appearance of over-hedging and under-hedging in 'adjacent' time bands, even when the risk mitigation activity is considered to be highly effective across the overall time horizon.

A32. The proposed paragraph 7.4.1 would require an entity to adjust downwards the benchmark derivatives in the time band showing an over-hedge, but there would be no corresponding adjustment to the time band showing an under-hedge. This is an additional adjustment on top of the ineffectiveness that would have been captured via the 'lower-of' test required by paragraph 7.4.8 of the ED.

A33. This could result in unwarranted accounting volatility. It could potentially result in entities modifying risk management actions (such as electing the use of wider time bands) to accommodate accounting outcomes, rather than RMA reflecting underlying economic risk management.

A34. In addition, the proposals seem to be more restrictive than the current hedge accounting requirements. RMA seems to require risk mitigation strategies to be fully effective whereas the current requirements in IAS 39 and IFRS 9 do not require hedge relationships to be fully effective[8]. As a result, we see merit in the IASB providing some flexibility in the requirements, while developing appropriate guardrails in the overall model.

A35. We therefore recommend that the IASB explores an approach that permits a limited degree of ineffectiveness, provided that:

a) it is consistent with the entity's actual risk management strategy;

b) it is subject to appropriate guardrails; and

c) the resulting ineffectiveness is transparent to investors and other users of financial statements.

A36. Such an approach would be more consistent with the principles underlying existing hedge accounting requirements in IAS 39 and IFRS 9, whilst continuing to prevent deliberate over-hedging.

A37. A couple of possible alternatives that the IASB could further explore and evaluate through field testing have been identified:

a) Maintaining the overall requirement for the Risk Mitigation Objective not to exceed the Net Repricing Risk Exposure but removing the required assessment within 'each' repricing time band if that is consistent with the way an entity manages its repricing risk. The IASB would need to assess whether there would be a need for guardrails elsewhere in the model.

b) Retaining the requirement in paragraph 7.4.1 but explicitly permitting offsetting across 'adjacent' repricing time bands. This could accommodate

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8 IAS 39 paragraph 88(b) requires hedging relationships to be 'highly effective', under which the actual results of the hedge are within a range of 80-125%. IFRS 9 does not prescribe a quantitative threshold but in terms of hedge effectiveness paragraph 6.4.1(c) requires consideration of the economic relationship (between the hedge item and the hedging instrument), the effects of credit risk and the hedge ratio used.

both under-hedging and over-hedging across adjacent repricing time bands, to the extent they offset each other if that is demonstrably aligned with the entity's risk management activities in practice. The IASB will need to assess whether this approach would require consideration of measuring the ineffectiveness across the time bands.

A38. We are not advocating a specific solution at this stage. The suggestions above have not yet been comprehensively tested and should not be viewed as fully developed solutions. Further analysis is needed to understand the consequences of any modification and whether additional safeguards would be required elsewhere in the model as well as any potential unintended consequences. In exploring solutions further, the IASB should consider the different challenges faced by entities of different sizes and levels of complexity.

A39. Once a revised approach is developed, the IASB should consider providing additional guidance and detailed worked examples (demonstrating the intended application of the requirements to different risk management approaches[9]) to assist understandability of the proposals and consistent application. This would be particularly important for smaller organisations which are typically more resource constrained.

A40. The proposed solutions above could alleviate some of the concerns identified with the RMA model but those should not be assessed in isolation as they are invariably interlinked to other aspects of the model. In particular, refer to our comments on Benchmark Derivatives and Risk Mitigation Adjustment Excess below.

Benchmark Derivatives

A41. We support the use of benchmark derivatives as a mechanism to represent the repricing risk specified in the risk mitigation objective. Benchmark derivatives are a foundational component of the proposed model. Consequently, confidence in the operation of other aspects of the model, including the risk mitigation adjustment and the excess test, depends on benchmark derivatives being capable of faithfully representing the repricing risk being managed in a manner that is both understandable and operationally feasible.

A42. Further consideration should be given to understand the operational implications of constructing, maintaining and updating benchmark derivatives throughout the mitigated time horizon. These challenges may differ across entities. Larger organisations may face significant complexity because of the scale and sophistication of their risk management activities as well as their more complex organisational structures, whereas smaller organisations may have less complex

9 Such as Economic Value of Equity (EVE) or a Present Value Per Basis Point measure (PV01).

risk management strategies but may face proportionately higher implementation costs because they are more reliant on third-party systems and service providers.

A43. The main area of focus is the intended application of the requirement to adjust benchmark derivatives to reflect the effects of 'unexpected changes'. The identification of unexpected changes, in particular for behavioural instruments[10] (such as demand deposits) where repricing risk is expectation-based, is highly subjective and expected to be challenging in practice.

A44. To fully reflect the effects of such unexpected changes to the amount of risk mitigation adjustment recognised on the balance sheet and therefore not trigger the proposed 'backstop' test, we understand that the entity would have to identify the relevant benchmark derivatives that have been constructed based on the original assumptions and adjust them accordingly (i.e. through retrospective adjustments). In a complex and dynamic repricing risk management environment, this would likely involve significant amounts of tracking.

A45. There is a practical expedient in proposed paragraph B7.4.14 that in certain circumstances allows an entity to deem the unexpected changes to have occurred at the time when the risk mitigation objective was last specified. However, we believe that the application of the practical expedient would likely not result in full reflection of the effects of the unexpected changes and therefore trigger the 'backstop' test since the unexpected changes could affect benchmark derivatives constructed before the most recent risk mitigation objective specified. This is particularly the case when risk management strategies are executed in a dynamic manner and risk mitigation objectives are specified frequently.

A46. We also observe a potential inconsistency with the proposed application guidance. While the proposals seem to require adjustments to benchmark derivatives (either retrospectively or by applying a practical expedient in certain circumstances), the proposed Illustrative Example 27 does not appear to reflect this requirement as the entity does not attempt to at least utilise the practical expedient before considering the 'backstop'.

A47. Therefore, the IASB needs to be clear on how the benchmark derivatives should be adjusted, including the use and purpose of the practical expedient and the interactions with the proposed 'backstop' (see Question 6 below). This would likely require comprehensive worked examples. Given the central role benchmark derivatives play within the proposed model, we strongly believe the IASB should further develop and undertake testing of potential approaches that would be suitable for the more common risk management strategies.

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

10 Behavioural assumptions reflect macroeconomic factors and the expected behaviour of existing and new holders (ED Basis for Conclusions paragraph 42).

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.

Risk mitigation adjustment

Departure from the Conceptual Framework

A48. The Basis for Conclusions, specifically paragraph BC92(a) states that the alternative to recognising the risk mitigation adjustment as an asset or a liability would involve volatility in other comprehensive income and thus would not faithfully represent the economic phenomenon of risk management activities. However, it does not explain why and how the proposals faithfully represent the economic effect of an entity's repricing risk management activities in its financial statements.

A49. Therefore, we recommend that the IASB articulate more clearly why and how the departure from the Conceptual Framework is justified for the new model to achieve its objectives. In particular, the IASB should address why this departure is justified where financial assets subsequently measured at fair value through other comprehensive income are included in the underlying portfolios, which may lead to the overstatement or understatement of net assets on the balance sheet.

Recognition and Measurement

A50. We support recognising only the effective portion of the risk mitigation activities by measuring the risk mitigation adjustment based on the lower of the cumulative gains or losses on the designated derivatives and the cumulative change in the fair value (present value) of the benchmark derivatives. This means that ineffectiveness is recognised in profit or loss immediately.

A51. We also support the release of 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 as this reflects the economic effect of an entity's risk management activities.

A52. The above proposed features of the new model draw from existing requirements on cash flow hedge accounting[11] and therefore would be expected to function in a similar manner.

A53. However, we believe that paragraphs 7.4.8, 7.4.10 and 7.4.14 of the ED could be clearer. The release of the risk mitigation adjustment to profit or loss, including any excess amounts recognised, could mean that the risk mitigation adjustment on the balance sheet is not always measured at the lower of the cumulative gains or losses on the designated derivatives and the cumulative change in the fair value (present value) of the benchmark derivatives. We believe the IASB must address this through redrafting of the proposed amendment.

A54. As a simple illustrative example, at the end of a financial reporting year, assume the following for an entity applying the proposals:

a) the risk mitigation adjustment is recognised as an asset measured at £100 million based on the 'lower of' requirement;

b) the release of the risk mitigation adjustment in the year amounts to £20 million debit in profit or loss and a credit to the risk mitigation adjustment asset; and

c) an excess amount of risk mitigation adjustment of £10 million has been newly determined (e.g. due to higher than expected prepayments in the underlying mortgage portfolio) and recognised as a loss in the income statement immediately.

A55. In the above example, the entity has a resulting risk mitigation adjustment debit balance of £70 million at the reporting date, which is different from the recognition of a £100 million asset in accordance with paragraph 7.4.8 of the ED.

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[11] See paragraph 6.5.11 of IFRS 9.

Risk mitigation adjustment excess

'Backstop'

A56. We support having a 'backstop' within the RMA model. Given the complexity and the dynamic nature of the relevant interest rate risk management activities, we believe a 'backstop' is important to ensure that material amounts of risk mitigation adjustment, which cannot be realised over the mitigated time horizon, do not remain on the balance sheet.

A57. However, the proposed requirements as drafted has given rise to the following concerns:

a) The proposed 'backstop' test being triggered more frequently than intended due to:

i. A lack of guidance on what triggers the quantitative comparison[12] within the proposed requirements.

ii. The entity being unable to track and adjust the benchmark derivatives to fully reflect the effects of 'unexpected changes' as noted in paragraph 7.4.11 of the ED and illustrated in paragraph IE224(b) of the Illustrative Examples. We understand from stakeholders that this situation is likely to arise as a result of the operational complexity and costs required to fully reflect the effects of 'unexpected changes'.

b) The quantitative comparison could generate counterintuitive results by potentially requiring excess amounts to be recognised in profit or loss immediately even when the risk mitigation activity is highly effective. A relatively simple example is when an entity partially mitigates the net repricing risk exposure but subsequently enters into additional derivatives (e.g. interest rate swaps) to mitigate the remaining net repricing risk exposure after interest rates have moved (i.e. "late hedges"). The proposed requirements compares the present value of the net repricing risk exposure as if it had been fully mitigated from the beginning against the risk mitigation adjustment. The proposed mechanics give rise to a mismatch in this example and results in excess amounts being recognised in profit or loss immediately even when the risk mitigation activity is ultimately highly effective.

c) Prohibiting the reversal of excess amounts recognised in profit or loss in future periods results in a permanent loss of hedge effectiveness that may not reflect the underlying economics of an entity's dynamic repricing risk management activities in future periods. For example, the proposed

[12] See paragraphs 7.4.12 and 7.4.13 of the ED.

'backstop' test may be triggered when assumptions on prepayments change in an adverse manner on a portfolio basis, resulting in excess amounts recognised.

If the change in forecasted assumptions do not materialise as expected (potentially as a result to changes in macroeconomic conditions) or the entity is able to recover from such an event, this subsequent change in future periods cannot be reflected if the reversal of previously recognised excess amounts is prohibited. Therefore, we recommend the IASB to consider allowing reversal of previously recognised excess amounts based on the design of the proposed 'backstop' test in the ED.

A58. Whilst we have not identified a comprehensive solution for the 'backstop' that would operate consistently across different risk management strategies and would faithfully represent the degree of ineffectiveness of an entity's risk management activities, we believe the IASB needs to address the concerns surrounding the benchmark derivatives (as noted in our response to Question 5 above) before considering the design of the 'backstop'. This is because the operation of the backstop depends fundamentally on benchmark derivatives appropriately representing the repricing risk specified in the risk mitigation objective.

A59. The proposed 'backstop' test is intended to ensure that the risk mitigation adjustment recognised on the balance sheet can be realised in full over the mitigated time horizon. One of the indications that full realisation may not happen is where the effects of unexpected changes have not been fully reflected in the benchmark derivatives[13].

A60. This means that any unresolved issue with the proposed requirements surrounding the benchmark derivatives is likely to appear as an additional consideration that the 'backstop' would have to address. For example, if entities have significant problems tracking and adjusting the benchmark derivatives, the 'backstop' may have to be designed to compensate for this issue.

A61. If the benchmark derivatives do not appropriately reflect the underlying repricing risk (see Question 5), it becomes difficult to determine the extent to which the 'backstop' test is merely compensating for imperfections elsewhere in the model. We expect that, as the number of such issues increases, it will become more difficult for the IASB to design a 'backstop' that operates effectively across entities employing different repricing risk management strategies.

A62. The practical implications of these requirements may differ across entities. Large and more complex institutions may face significant operational challenges in constructing and maintaining benchmark derivatives that appropriately reflect changing risk exposures. Smaller institutions may face proportionately greater implementation costs because they are reliant on third-party systems and external

[13] See paragraph 7.4.11 of the ED.

service providers. Accordingly, the IASB should further develop a solution that is scalable to entities of different levels of complexity while ensuring that it can deliver an appropriate degree of comparability and transparency.

Other

A63. In relation to the determination of the present value of the NRRE as drafted, we also believe additional clarity is needed to explain the rationale for the method of adjustment for variable-rate excess in paragraph IE228 of the Illustrative Examples (Example 27).

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.

A64. We agree with the IASB's conclusion to prohibit voluntary discontinuation of RMA to avoid an entity applying RMA purely to achieve favourable accounting outcomes[14]. This is consistent with the requirements in IFRS 9 that prohibit voluntary de-designation of a hedging relationship and the discontinuation of hedge accounting when the risk management objective for a particular hedging relationship remains the same, and all the other qualifying criteria are met. As a result, we support prospective discontinuation of RMA only if the entity changes its risk management strategy.

A65. We support the proposed accounting for the discontinuation of RMA, that is, that the accounting for the amount accumulated as the risk mitigation adjustment would

14 Paragraph BC120.

vary depending on whether the repricing differences from the financial instruments in the underlying portfolios are still expected to affect profit or loss.

A66. In addition, we recommend the IASB provides clarity as to whether an assessment of potential risk mitigation adjustment excess should be conducted upon discontinuation of risk mitigation accounting and thereafter until the entire risk adjustment has been released.

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?

Withdrawal of IAS 39

A67. Most entities in the UK banking industry currently apply the hedge accounting requirements in IAS 39. These entities include unlisted UK GAAP reporters, a number of whom apply the recognition and measurement requirements of IAS 39 as it applied before being superseded by IFRS 9 (including the Incurred Credit Loss model) via the application of an accounting policy choice within UK GAAP.

A68. Following the UK's exit from the European Union, the IAS 39 carve-out relating to fair value hedge accounting for portfolio hedges of interest rate risk was incorporated within UK adopted international accounting standards.

A69. The UKEB understands that large UK banks do not generally apply the provisions in the carve-out (in some cases due to financial reporting requirements in certain

jurisdictions[15]) but a number of smaller organisations in the UK currently utilise such provisions. There is limited guidance and disclosure requirements around the carve-out, which has hindered comparability and transparency of financial information.

A70. The UKEB supports the IASB's objective of replacing IAS 39 with a single international accounting solution. However, withdrawal of IAS 39 should be preceded by a workable replacement having been developed and field tested comprehensively to confirm operational viability and shown to provide useful information to investors and other users of financial statements.

A71. Accordingly, our support for the withdrawal of IAS 39 is linked to the successful development and testing of a replacement solution that is scalable to entities of different levels of complexity while maintaining an appropriate degree of comparability and transparency.

A72. Some UK stakeholders have suggested potential alternatives to a revised RMA, including:

a) Incorporating limited elements of the proposed RMA model into Chapter 6 hedge accounting requirements of IFRS 9. Potential areas for consideration include the ability to hedge forecast transactions (such as pipeline mortgages) and demand deposits modelled as fixed rate exposures on a portfolio basis.

b) A business model inspired approach to accounting for qualifying derivatives used in the banking book. This approach seeks to leverage existing banking regulatory and governance frameworks to demonstrate that derivatives are used as part of a managed Interest Rate Risk in the Banking Book (IRRBB) programme.

The stakeholder suggestions in the above paragraph have not yet been fully developed. Further consideration and assessment of potential unintended consequences is therefore needed.

A73. As noted elsewhere in this letter, we believe the IASB should first focus its efforts on further building upon its current proposals to ensure they achieve their objectives, taking into consideration the key aspects we highlight in this letter requiring further assessment from the IASB.

A74. In addition, we would like to highlight to the IASB the importance of assessing the proposals from the perspective of investors and other users of financial statements. While there is strong interest in the objective of the project, there remains only

15 For example, the U.S. Securities and Exchange Commission permits foreign private issuers to present financial statements prepared in accordance with IFRS 'as issued by the IASB'.

limited evidence as to whether the proposed model would improve decision-useful information for users of financial statement.

A75. This reflects the fact that important aspects of the model remain uncertain and, consequently, it has been difficult for investors and other users to perform a comprehensive assessment of the information and disclosures that would result from the proposals. As a result, it is currently difficult to determine whether the proposals would improve users' understanding of:

a) whether risk mitigation activities have been effective;

b) the reasons why ineffectiveness has arisen; and

c) whether any ineffectiveness reflects changing economic conditions or the way in which management has undertaken its risk management activities.

A76. We therefore believe the IASB must continue engaging closely with investors and other users of financial statements as it develops the model.

Re-exposure and further field testing

A77. As discussed elsewhere in this letter, we do not believe sufficient evidence currently exists to conclude that the proposed RMA model, as drafted, would achieve the IASB's stated objectives.

A78. The UKEB would like to highlight that a number of UK stakeholders participated in field testing of the proposed requirements and made every effort to complete the exercise. However, the uncertainty surrounding several significant features of the model has limited the extent to which those field testing exercises could provide conclusive evidence regarding the operational feasibility of the proposals as a whole and the usefulness of the reporting outputs to investors and other users of financial statements.

A79. This limitation is particularly significant because the key elements of the model are highly interconnected. Changes to benchmark derivatives, repricing time bands or the excess test are likely to have consequences throughout the remainder of the model and for the resulting disclosures.

A80. Consequently, we expect that revisions to the proposals arising from stakeholder feedback may be sufficiently significant that stakeholders need an opportunity to assess a revised model as an integrated package rather than as a series of individual refinements.

A81. The UKEB recommends that the IASB re-expose for comment those aspects of the model that have been substantially revised, while providing a complete draft of the amended requirements. This will enable stakeholders to assess the proposals in

their full context and, where relevant, undertake further field testing. In our view, this is consistent with the approach the IASB took to consult on its Revised Exposure Draft for IFRS 17 *Insurance Contracts* in 2013.

A82. Re-exposure and further field testing would provide the IASB with important new information by enabling preparers to:

a) assess whether a revised model is operationally feasible across different risk management strategies and entity sizes; and

b) identify unintended consequences and implementation challenges.

A83. Such an approach would allow the IASB to continue building on the existing proposals and evidence obtained to date, while providing stakeholders with an opportunity to evaluate the revised package holistically. This would help ensure that feedback is informed by an understanding of how the revised elements interact within the model as a whole.

A84. We do not view this recommendation as calling for a fundamental reconsideration of the project or a complete rewriting of the proposals. Rather, it is intended to support the efficient development of a robust and operable model by enabling stakeholders to focus their assessment on those areas that have changed significantly, while considering those changes within the context of the overall package of amendments.

A85. The revised model should also be capable of being applied proportionately by entities with differing business models, risk profiles and operational capabilities.

A86. The IASB should use any re-exposure and associated field testing to engage more fully with investors and other users of financial statements. In particular, users should be provided with worked examples and illustrative reporting outputs from the revised model, enabling them to assess whether the resulting information is more decision-useful than existing reporting outcomes. The UKEB does not believe sufficient evidence currently exists to make that assessment.

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.

Transition

A87. We support a prospective application of the proposed RMA model. Prospective application is consistent with transition requirements for the general hedge accounting requirements in Chapter 6 of IFRS 9 (as it precludes the use of hindsight in retrospective application for hedging relationships).

A88. However, given the complexity of the proposed RMA, we believe that a significantly longer than normal timeline for transitioning to a revised accounting model (or to the general hedge accounting requirements under Chapter 6 of IFRS 9 *Financial Instruments* if an entity elected to do so) will be warranted, with early adoption permitted, once the amendments are finalised.

A89. We also believe the IASB must carefully consider the transition requirements and provide sufficient application guidance, such as the treatment for off-market derivatives on transition date, and the interaction between existing hedge accounting relationships and newly established RMA portfolios, given the magnitude and complexity of existing dynamic repricing risk management strategies.

A90. Transition challenges are likely to differ considerably between entities depending on the size and sophistication of their risk management activities. Accordingly, transition requirements should be capable of being applied by both large and smaller institutions without imposing disproportionate costs.

A91. We support permitting entities to revoke their previous designation of financial assets or liabilities as measured at fair value through profit or loss, if those financial instruments will be included in underlying portfolios.

A92. In addition, we consider that entities should be permitted to irrevocably designate financial instruments as measured at fair value through profit or loss if the conditions in IFRS 9 paragraphs 4.1.5 or 4.2.2(a) are met on transition. We believe that this could provide an accounting alternative for entities that choose not to apply hedge accounting.

A93. We support exempting entities transitioning to RMA from disclosing the quantitative information required by paragraph 28(f) of IAS 8. In our view, requiring such disclosures would be inconsistent with the proposed prospective application of RMA (as noted in the IASB's Basis for Conclusions BC146).

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.

A94. We support the proposals to require separate presentation of the risk mitigation adjustment in the primary financial statements as we believe this would provide users with better information on the effects of the entity's dynamic repricing risk management activities.

A95. We support the objective of requiring specific qualitative and quantitative disclosures. However, further work is required to assess whether the proposed disclosures strike an appropriate balance between providing decision-useful information and imposing additional reporting burdens on preparers.

A96. In particular, disclosures should enable investors and other users of financial statements to understand the extent to which the entity's risk mitigation activities have achieved their objectives, the drivers of any reported ineffectiveness and whether any ineffectiveness reflects market conditions, model mechanics or management actions.

A97. For example, we note that, as drafted, there is no explicit requirement to:

a) disclose and explain the cause of the recognition of risk mitigation adjustment excess in the reporting period, if material; and

b) how this has affected the expected profile of the release of the risk mitigation adjustment to profit or loss.

A98. We believe this information would be particularly important where material amounts of risk mitigation adjustment excess are recognised. Without such disclosure, users may struggle to understand whether the resulting amount arises from genuine deterioration in risk mitigation effectiveness or from specific features of the accounting model.

A99. We also recommend that the IASB carefully consider how the proposed disclosure requirements interact with the wider IFRS 7 disclosure requirements in a way that would provide a holistic overview of how affected entities manage risks. This needs to take into account any potential changes to existing disclosure requirements that may arise out of the IASB's *Post-implementation Review of IFRS 9 Hedge Accounting*.

A100. We believe the IASB also has to consider the scope of RMA carefully such that the qualitative disclosures required by paragraph 33A of the ED do not have unintended consequences, such as significantly increasing the costs of financial reporting for entities that do not adopt dynamic interest rate repricing risk management strategies. For the avoidance of doubt, we believe the concepts of proportionality and scalability apply similarly to the proposed disclosure requirements (including for entities applying IFRS 19 *Subsidiaries without Public Accountability: Disclosures*) when the IASB develops a revised model.

A101. Given the importance of disclosures to achieving the IASB's stated objective, we encourage further testing of the proposed disclosure package with investors and

other users of financial statements. Such testing would help assess whether the disclosures provide meaningful insight into entities' risk mitigation activities and whether any refinements are required before finalisation.

A102. More generally, we believe further engagement with investors and other users of financial statements is needed before the disclosure package is finalised. This would help assess whether the information produced by the revised model enables users to understand both the effectiveness of risk mitigation activities and the causes of any reported ineffectiveness.

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.

A103. UK life insurers, in particular annuity providers, are exposed to significant interest rate risk due to the nature of their long-term business. They typically manage portfolios of insurance contracts together and a significant portion of their assets are used to back such contracts to ensure that there are sufficient funds to pay out potential future claims. Repricing risk arises, for example, when the assets' durations are different from those of the corresponding insurance liabilities.

A104. Most of these assets are measured at fair value through profit or loss which means that they are largely unable to utilise the existing hedge accounting requirements under IFRS 9 and IAS 39.

A105. Based on stakeholder outreach in the UK, we also understand that UK insurers typically hedge their capital position on a regulatory basis and, unlike UK banks, their IFRS financial statements do not form the starting point for their regulatory position.

A106. Therefore, the proposals as drafted are unlikely to achieve the objective of better representing in the financial statements the economic effects of UK insurers' repricing risk management activities compared with the currently available accounting options.

A107. We are aware that some UK insurers, in particular life insurers, are developing a model based on certain proposed concepts within the ED that would better reflect the economic effects of their repricing risk management activities in the financial statements.

A108. We do not believe sufficient evidence currently exists to conclude whether a revised model could provide an appropriate solution for insurers. Further analysis, stakeholder engagement and field testing would be required before reaching such a conclusion.

A109. We also recommend the IASB to consider how this project would interact with other projects such as the post-implementation review of IFRS 17. As part of our initial stakeholder outreach in the UK for the UKEB post-implementation review of IFRS 17, UK stakeholders suggested RMA as one of a few potential solutions to address the perceived issue arising from measuring the Contractual Service Margin at locked-in discount rates under the General Measurement Model[16].

A110. We believe it would be ideal for the IASB to revise the proposed RMA model such that it can accommodate the needs of both the banking and insurance sectors, including the relevant users. This will promote consistency and enhance comparability amongst eligible entities.

A111. However, trying to develop a comprehensive solution for both banks and insurers may require more careful consideration. If this approach would significantly delay the delivery of a workable solution for banks, we would encourage the IASB to focus on ensuring the new model is suitable for stakeholders in the banking sector first given the disconnect between the IFRS and regulatory positions for UK insurers, while continuing its work with insurance stakeholders in parallel.

16 See paragraph 42 of the Request for Information of the UKEB post-implementation review of IFRS 17.

UKEB
UK Endorsement Board

Feedback Statement

Risk Mitigation Accounting–Proposed amendments to IFRS 9 and IFRS 7

November 2026



DRAFT FOR DISCUSSION

Disclaimer

This Feedback Statement has been produced in order to set out the UKEB's response to stakeholder comments received on the UKEB's Draft Comment Letter (DCL) on the IASB's ED *Risk Mitigation Accounting* and should not be relied upon for any other purpose.

The views expressed in this Feedback Statement are those of the UK Endorsement Board at the point of publication.

Any sentiment or opinion expressed within this Feedback Statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.

The UKEB does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

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1. Purpose of this Feedback Statement

Background

1.1 The UK Endorsement Board (UKEB) is the UK's National Standard Setter for IFRS Accounting Standards responsible for endorsement and adoption of international accounting standards for use in the UK. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations.

1.2 The comment letter to which this feedback statement relates forms part of those influencing activities and is intended to contribute to the IFRS Foundation's due process.

1.3 The views expressed by the UKEB in its comment letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended international accounting standards undertaken by the UKEB.

Purpose of this Feedback Statement

1.4 This Feedback Statement presents the views of UK stakeholders received during the UKEB's public consultation on the draft comment letter (DCL) relating to the IASB's Exposure Draft (ED) *Risk Mitigation Accounting-Proposed amendments to IFRS 9 and IFRS 7*. It also explains how the UKEB's Final Comment Letter addressed those views.

2. The IASB's Exposure Draft

2.1 In December 2025, the International Accounting Standards Board (IASB) published the Exposure Draft (ED) IASB/ED/2025/1 *Risk Mitigation Accounting—Proposed amendments to IFRS 9 and IFRS 7* . The consultation period originally ended on 31 July 2026 but was subsequently extended to 30 November 2026.

2.2 IFRS 9 *Financial Instruments* aimed to introduce improved hedge accounting requirements. However, it does not provide a solution for faithfully representing the economic effect of dynamic and complex risk management activities.

2.3 The scope of the ED is limited to interest rate repricing risk[1], in instances where entities meet the criteria to demonstrate that this risk is being managed dynamically. The IASB aims to better represent in the financial statements the effects of a company's activities to mitigate repricing risk and to provide useful information to investors about how a company manages that risk and the extent to which it is mitigated. A summary of the proposed changes can be found in the IASB's snapshot document.

2.4 Consistent with the hedge accounting requirements in IFRS 9, the ED's proposed requirements are voluntary. In addition, the ED proposes to withdraw IAS 39 *Financial Instruments: Recognition and Measurement* once the proposed requirements are available for use.

[1] Repricing risk is defined as a type of interest rate risk that exposes an entity to variability in the cash flows from, and the fair value of, financial instruments, arising from differences in:
a) the timing of when financial instruments reprice to benchmark interest rates; and
b) the amount of financial instruments that reprice in a particular period.

3. UKEB public consultation on the Draft Comment Letter

3.1 The UKEB's outreach activities, which took place between December 2025 and November 2026, were conducted to assist the UKEB in developing its Comment Letter.

3.2 Stakeholder feedback was reflected in the Draft Comment Letter (DCL) which was published for public consultation on 28 April 2026 with an initial comment deadline of 28 June 2026. On 21 May 2026, the UKEB agreed to extend its comment period from 60 days to approximately 175 days, following the IASB's decision to extend the ED's comment deadline. The UKEB's revised comment deadline was 21 October 2026.

3.3 Outreach activities[2] included discussions with the following UKEB Advisory Groups:

a) Academic Advisory Group.

b) Accounting Firms and Institutes Advisory Group.

c) Financial Instruments Advisory Group[3].

d) Investor Advisory Group.

e) Preparer Advisory Group.

f) Rate-regulated Activities Technical Advisory Group.

3.4 The UKEB Advisory Groups have multiple members, representing a variety of stakeholder types. The groups we engaged with comprise **61**[4] members. Information about these groups can be accessed here.

3.5 Two roundtables were organised with members of the Financial Instruments Advisory Group and additional organisations with an interest in Risk Mitigation Accounting. Official observers were also in attendance. An IASB member and IASB staff attended one of the roundtables as observers.

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2 This summary reflects the aggregate outreach performed prior and post the publication of the UKEB Draft Comment Letter.

3 On 22 September 2026, the UKEB's Financial Instruments Working Group (FIWG) changed its official status and became the Financial Instruments Advisory Group (FIAG). For simplicity, this document consistently refers to FIAG, in the understanding that it relates to FIWG for engagement to 22 September 2026.

4 This reflects the members in attendance at the meetings this project was on the agenda.

3.6 In addition, a large number of one-to-one meetings with accounting firms, hedge accounting solution providers, preparers, professional bodies and a regulator were held to gather stakeholder feedback.

3.7 A summary of other stakeholder engagement, in addition to engagement with UKEB Advisory Groups, is presented in the table below:

Stakeholder type	**Number of organisations**[5]
UKEB Roundtables:	
• Academic	1
• Accounting firms	7
• Preparers	10
• Professional/Membership Body	1
Total organisations reached via UKEB Roundtables	**19**
Meetings organised by Professional/Membership Bodies	
Preparers	14
Accounting firms	5
Total organisations reached via meetings organised by Professional/Membership Bodies	**19**
One-to-one meetings:	
• Academic	1
• Accounting firms	2
• Hedge accounting solution providers	2
• Preparers	8
• Regulator	1
Total organisations reached via one-to-one meetings	**14**

[5] Some stakeholders engaged with the UKEB in more than one forum (for example, at an Advisory Group and attending either a roundtable, a separate one-to-one meeting or both). The UKEB is grateful for the level of engagement shown by UK stakeholders on this project.

3.8 In addition, during the consultation period the UKEB promoted awareness of the DCL and encouraged stakeholders to respond through News Alerts, LinkedIn posts, the UKEB website and targeted emails to our outreach participants.

3.9 The UKEB received seven formal responses from stakeholders[6]. Six were published on the UKEB website, as one stakeholder requested their submission was treated as confidential (this was shared with the Board separately). The table below sets out the number of formal responses disaggregated by stakeholder type.

Stakeholder type	**Number of formal responses**
Accounting firms	2
Professional/Membership Bodies	2
Hedging solution provider	1
Preparer (Confidential Submission)	1
Other	1
Total	**7**

3.10 All stakeholder comments and views were considered in reaching the final UKEB views on the questions raised by the IASB in the ED.

[6] One respondent raised a number of broader concerns regarding the role of accounting standard-setting, corporate governance, auditing and the wider financial reporting framework. The UKEB considered these comments; however, many of those related to matters outside the scope of the IASB's Exposure Draft and the UKEB consultation and therefore did not result in changes to the Final Comment Letter. Where comments related directly to the proposed Risk Mitigation Accounting model, they were considered alongside feedback from other stakeholders.

4. UKEB and stakeholder views

4.1 This section presents a high-level summary of stakeholder feedback received. When stakeholders agreed with the UKEB's draft position and where there has been no substantive change in drafting from the DCL, this feedback has been excluded from the summary of feedback presented below.

Question 1: Objective and scope of risk mitigation accounting
UKEB draft position
4.2 Supported the RMA's objective but recognised that full alignment with risk management was unlikely. 4.3 Noted further work was needed to assess whether the ED proposals could reflect the underlying risk management objectives in a way that could be implemented without undue cost or effort and provide more useful information to users of financial statements. 4.4 Suggested considering the potential implications for IFRS reporters (including smaller banks and other entities) that are currently applying IAS 39. 4.5 Supported a scope that is not restricted to a specific industry but noted that further work was needed to assess whether the proposed model would be suitable for non-banks (e.g. UK insurers). 4.6 Other aspects discussed in the UKEB draft position included: a. Credit risk. b. Voluntary application. c. Level of application. d. Formal documentation.
Stakeholder views
4.7 Support for the IASB's objective of better aligning accounting with risk management. However, widespread concern across stakeholders (of varying sizes and levels of complexity) in the banking industry that the proposed model is overly complex, operationally burdensome, and may create accounting-driven volatility that does not faithfully reflect economic risk management. Noted that potential benefits may not outweigh the likely costs of implementing the proposals as currently drafted. 4.8 Noted considerable challenges for UK insurers in applying the proposals. [Refer to Question 11]. 4.9 Request for additional application guidance and detailed illustrative examples that reflect how the proposals would work in practice to real-life fact patterns. This would be beneficial for all organisations, in particular smaller entities with more

limited resources available.

4.10 Mixed views as to how best to achieve the RMA's objectives:

a. Some strongly advocated building on the current proposals and identified specific aspects of the proposals that require further consideration [Refer to comments in Questions 2-11].

b. Others suggested considering alternative approaches. [Refer to Question 8]

c. Most expressed a preference for limiting the number of accounting options available and asked for a single solution that is scalable for entities of different sizes and levels of complexity.

4.11 Need for clearer and additional application guidance, including comprehensive worked examples that illustrate the application of the requirements for dynamic portfolios.

UKEB final position

4.12 Consistent with its draft position, the UKEB retained its support for the IASB's overall objectives but noted that the current proposals do not sufficiently align with commonly used risk management strategies in the UK, leading to application challenges. The UKEB identified key areas requiring further development by the IASB, including repricing time bands, benchmark derivatives and the proposed risk mitigation adjustment excess test.

4.13 Expanded to:

a. Highlight the importance of scalability and proportionality in developing a proposed solution suitable for entities of different sizes and levels of complexity.

b. Emphasise the need for greater engagement with users of financial statements so that a further developed model provides decision-useful information.

Question 2: Underlying portfolios

UKEB draft position

4.14 Supported the proposed approach for underlying portfolios but requested clearer drafting and illustrative examples, in particular in relation to:

a. Future transactions.

b. Pipeline mortgages.

c. Demand deposits.

Stakeholder views	
4.15	Strong support for the inclusion of pipeline mortgages and demand deposits on a portfolio basis.
4.16	Most questioned the IASB's decision to prohibit equity from being included in underlying portfolio as they perceive this to be inconsistent with actual risk management practices. They also expressed concerns with a lack of clarity in the proposed application guidance on 'equity modelling' that could allow the proposed RMA model to achieve better alignment with the actual risk management strategies.
UKEB final position	
4.17	Consistent with its draft position, and updated to recommend that the IASB provide additional clarity on 'equity modelling'.

Question 3: Determining the net repricing risk exposure	
UKEB draft position	
4.18	Supported the proposed determination of the net repricing risk exposure (NRRE) but acknowledged stakeholder feedback that the requirement to restrict the risk mitigation objective to be within the amount of NRRE in each repricing time band may not align with certain risk management strategies. Requested further clarification to alleviate concerns in this area. [Refer to Question 5]
Stakeholder views	
4.19	Stakeholders indicated that risk management is typically not based on a single measure but on multiple risk metrics. It is unclear if and how the model would accommodate such approaches. Further guidance is needed.
UKEB final position	
4.20	Expanded to describe the concerns arising from the proposals. To aid clarity in the UKEB's message, this was presented as part of the response to Question 5.

Question 4: Designated derivatives	
UKEB draft position	
4.21	Support for the proposals on designated derivatives but considered that additional clarity is needed to address situations such as when non-linear designated derivatives are used to mitigate repricing risk. For example, in relation to the

accounting for the time value of options under the proposed model.

4.22 Noted that further work is needed to understand the extent of application challenges in identifying designated derivatives. For example, where a single derivative was used to manage the NRRE from a combination of eligible and ineligible items.

Stakeholder views

4.23 Concerns on the prohibition to designate internal derivatives, particularly where risk is centrally managed within groups.

UKEB final position

4.24 Consistent with the draft position which generally supports the proposals on designated derivatives but requests additional guidance and clarity when non-linear derivatives are used to mitigate repricing risk.

4.25 Updated to recommend that the IASB provide additional guidance and worked examples to make it clear how the proposals are intended to work in groups at a consolidated level, especially where RMA may be applied at an entity level with the use of intragroup derivatives.

Question 5: Risk mitigation objective and benchmark derivatives

UKEB draft position

4.26 Noted that further work was needed to assess the implications of the requirement that the risk mitigation objective does not exceed the amount of net repricing risk exposure (NRRE) in each repricing time band. [See Question 3]

4.27 Recommended providing additional guidance in relation to:

a. The construction of benchmark derivatives.

b. The intended interpretation of the requirement that benchmark derivatives can only include features that are present in both, the designated derivatives and the repricing risk represented by the risk mitigated objective.

c. Acceptable approaches for adjusting the benchmark derivatives to capture the effects of 'unexpected changes' in the underlying portfolios.

d. Examples of circumstances where the optional simplification in paragraph B7.4.14 of the ED could be applied.

Stakeholder views

4.28 Highlighted concerns that the proposed restriction per 'each' repricing time band could create a disconnect between risk management and accounting outcomes.

Stakeholders consider the proposals:

a. Could result in artificial accounting volatility, even when the overall hedge is effective over the mitigated time horizon.

b. Could lead to organisations changing their risk management practices or executing unnecessary market transactions to satisfy accounting requirements.

4.29 Consistently described the proposals on benchmark derivatives as highly complex and operationally difficult to implement and maintain, in particular due to the need for tracking at a granular level.

4.30 Requested further clarity in the requirements, for example, on the intended application of the requirements to adjust benchmark derivatives to reflect the effects of 'unexpected changes' and also the interaction with the proposed risk mitigation adjustment excess.

UKEB final position

4.31 Expanded to describe the concerns arising from the proposed use of time bands (ED paragraph 7.4.1) and recommended the IASB explores an approach that permits a limited degree of ineffectiveness, provided it is consistent with the entity's actual risk management strategy, subject to appropriate guardrails and the ineffectiveness is transparent to users of financial statements.

4.32 Updated to highlight the concerns regarding the construction and adjustment of benchmark derivatives, in particular, to reflect the effects of 'unexpected changes'. The UKEB recommended the IASB further develop and undertake testing of potential approaches that would be suitable for the more common risk management strategies.

4.33 Emphasised the need to consider the different challenges faced by entities of different sizes and levels of complexity and for not assessing issues in isolation given they are invariably interlinked to other aspects of the model.

Question 6: Recognising and measuring the risk mitigation adjustment

UKEB draft position

Risk mitigation adjustment

Departure from the Conceptual Framework for Financial Reporting

4.34 Recommended that the IASB articulate more clearly why and how the departure from the Conceptual Framework is justified.

Recognition and Measurement

4.35 Suggested clarifying paragraph 7.4.8 of the ED, as the interaction between various proposed requirements could mean that the risk mitigation adjustment is not

always measured at the lower of the two amounts in paragraph 7.4.8(a) and (b).

Risk mitigation adjustment excess

4.36 Supported the concept of a 'backstop' test but raised concerns about the proposals producing counterintuitive results in certain circumstances.

Stakeholder views

4.37 Some stakeholders questioned the significance of the Conceptual Framework considerations identified in the Draft Comment Letter, with comments focusing instead on the practical application of the proposed accounting requirements.

4.38 Even though stakeholders supported the objective of the risk mitigation excess test as a 'backstop' test, most expressed concerns with the operationality of such test, including:

a. The excess test produces counterintuitive results in certain circumstances.

b. That the excess test may be triggered more often than intended.

c. The granular level of tracking which would be required.

d. The asymmetrical nature of the proposals, as reversals are not permitted.

4.39 Limited potential solutions have been proposed in this space, although stakeholders have suggested for the IASB to focus on addressing the issues surrounding the benchmark derivatives as a first step, such that a 'backstop' can then be designed appropriately.

UKEB final position

4.40 Consistent with the draft position.

4.41 Expanded to reflect stakeholders' further concerns on the proposed 'backstop' test and make clear the close linkage between the requirements on benchmark derivatives and the 'backstop'.

4.42 Updated to recommend the IASB address the concerns surrounding the benchmark derivatives before considering the design of the 'backstop'. This is intended to provide the IASB with a direction of travel, even though a comprehensive solution has not yet been identified.

Question 7: Discontinuation of risk mitigation accounting

UKEB draft position

4.43 Supports the proposals on discontinuation.

4.44 Recommends providing clarity as to whether an assessment of potential risk mitigation adjustment excess should be conducted upon discontinuation of risk

	mitigation accounting and thereafter until the entire risk mitigation adjustment has been released.
Stakeholder views	
4.45	Concerns on the prohibition of voluntary discontinuation of risk mitigation accounting.
UKEB final position	
4.46	Consistent with the UKEB's draft position. The UKEB acknowledged stakeholder feedback in relation to the prohibition of voluntary discontinuation but noted the proposed approach is consistent with hedge accounting requirements in IFRS 9.

Question 8: Effective date and withdrawal of IAS 39	
UKEB draft position	
4.47	Expressed a need for a longer timeline to implement the proposed amendments.
4.48	Recommended a thorough cost benefit analysis, including the potential impact on IFRS reporters (including smaller banks and other entities), should be performed before making a decision on the withdrawal of IAS 39.
Stakeholder views	
4.49	Most expressed the view that IAS 39 should not be withdrawn without a viable accounting solution in place for entities of different sizes.
4.50	Mixed views as to how best to achieve the RMA's objectives: a. Some strongly advocated building on the current proposals and identified specific aspects of the proposals that require further consideration [Refer to comments in Questions 2-11]. b. Others suggested considering alternative approaches, including: i. Incorporating limited elements of the proposed RMA model into either Chapter 6 hedge accounting requirements of IFRS 9 or a revised version of IAS 39. ii. Extending the UK/EU carve-out version of IAS 39 to other jurisdictions applying IFRS Accounting Standards. iii. A business model inspired approach to accounting for qualifying derivatives used in the banking book. c. Most expressed a preference for limiting the number of accounting options available and asked for a single solution that is scalable for entities of

different sizes and levels of complexity.

4.51 Most considered that re-exposure of a revised RMA model is needed and asked for the opportunity for stakeholders to field test the revised proposals.

UKEB final position

4.52 Noted the withdrawal of IAS 39 should be preceded by a workable replacement, and that such replacement should be scalable for entities of different levels of complexity.

4.53 Shared some alternatives suggested by UK stakeholders but recommended the IASB should first focus their efforts on further building upon its current proposals to ensure they achieve their objectives.

4.54 Recommended re-exposure and further field testing of the proposals and highlighted the need to engage with users of financial statements to enable them to assess whether the resulting information is more decision-useful.

Question 9: Transition

UKEB draft position

4.55 Support for the IASB's proposals. In addition, the UKEB noted that:

a. Further transition guidance is needed to address issues such as off-market derivatives on transition to the proposed model.

b. Entities should be permitted to irrevocably designate financial instruments as measured at fair value through profit or loss, if the conditions in IFRS 9 paragraphs 4.1.5 or 4.2.2(a) are met on transition.

c. Where relevant, matters arising out of the IASB's Post-implementation Review of IFRS 9 – Hedge Accounting should be considered in the context of RMA.

Stakeholder views

4.56 Most stakeholders considered that a significantly longer than average transition period should be allowed given the complexity of the RMA model, with some suggesting at least three years plus parallel running (with IAS 39).

4.57 In relation to transition reliefs, recommendations included:

a. Grandfathering existing hedge relationships.

b. Permitting non-zero fair value derivative designation on transition.

UKEB final position
4.58 Consistent with the UKEB draft position but expanded to highlight the need for transition requirements that are capable of being applied by both large and smaller institutions without imposing disproportionate costs.

Question 10: Disclosure requirements
UKEB draft position
4.59 The UKEB supported the proposals to require separate presentation of the risk mitigation adjustment in the primary financial statements and the objective of requiring specific qualitative and quantitative disclosures. 4.60 The UKEB considered that: a. The proportionality of the proposed disclosures will need further assessment, including whether they would provide useful information to users of financial statements. b. Additional information which explains the cause of the recognition of risk mitigation adjustment excess (if material), including how it has affected the expected profile of the release of the risk mitigation adjustment, would be useful to users of financial statements. c. The scope of RMA should be considered carefully such that the proposed qualitative disclosures requirements for entities that are eligible for but do not adopt the proposed RMA model do not have unintended consequences.
Stakeholder views
4.61 Most stakeholders questioned the requirement for qualitative disclosures for entities in scope that are eligible for but do not adopt the RMA model. 4.62 Mixed views. Some considered that the proposed disclosure requirements would result in an improvement to financial reporting compared to current practice, while others viewed the proposed disclosures as excessive, costly and potentially commercially sensitive.
UKEB final position
4.63 Consistent with the draft position. 4.64 Expanded to: a. Emphasise the need for greater engagement with users of financial statements so that a further developed model provides decision-useful information. b. Highlight the importance of scalability and proportionality in developing a

proposed solution suitable for entities of different sizes and levels of complexity (including for entities applying IFRS 19 *Subsidiaries without Public Accountability: Disclosures*).

c. Recommend that the IASB considers the interaction of the proposals with the *Post-implementation Review of IFRS 9 Hedge Accounting*.

Question 11: Risk management strategy	
UKEB draft position	
4.65	Understood that UK insurers typically hedge their capital position on a regulatory basis instead of an IFRS basis.
4.66	It is unclear whether the ED proposals will achieve the objective of better representing the economic effects of UK insurers' repricing risk management. The UKEB suggested the IASB focus on ensuring the proposed model is suitable for banks first before considering it for insurers.
Stakeholder views	
4.67	Stakeholders in the UK insurance sector support the IASB's efforts in developing a model which works for both banks and insurers simultaneously. However, they believe it is unlikely that the proposals, as drafted, will achieve the objective of better representing in the financial statements the economic effects of UK insurers' repricing risk management activities given the differences between their regulatory and IFRS positions.
4.68	Some UK insurers, particularly life insurers, are developing a model based on certain proposed concepts within the ED that would better reflect the economic effects of their repricing risk management activities in the financial statements. This model is a work in progress at this stage.
UKEB final position	
4.69	Consistent with the draft position, the UKEB continues to observe that UK insurers typically hedge their capital position on a regulatory basis.
4.70	Updated to state that the proposals as drafted are unlikely to achieve the objective of better representing in the financial statements the economic effects of UK insurers' repricing risk management activities.
4.71	Also updated to recommend the IASB revise the proposed model such that it can accommodate the needs of both the banking and insurance sectors, including the relevant users. However, if this is not practicable, the UKEB recommends that the IASB focus on delivering a solution suitable for banking entities first while working with insurance stakeholders in parallel.

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DRAFT

26 November 2026
Agenda Paper 5: Appendix C

UKEB
UK Endorsement Board

Appendix C: DRAFT Due Process Compliance Statement: *Risk Mitigation Accounting—Proposed amendments to IFRS 9 and IFRS 7*

The International Accounting Standards Board (IASB) published Exposure Draft *Risk Mitigation Accounting—Proposed amendments to IFRS 9 and IFRS 7* (the Proposed Amendments) on 3 December 2025. The IASB comment period ends on 30 November 2026.

Milestone: Project Initiation Plan (PIP) (mandatory) [Due Process Handbook (Handbook) 5.4–5.8, A1–A2]
PIP completed (including objective, timeline, milestones, outreach plan, resources, output and explanations for any change in consultation period or whether an advisory group is necessary) and approved at public meeting
Complete: The original PIP was approved at the 29 January 2026 Board meeting subject to further revisions. The PIP was updated and re-published on the UKEB project page (see below).
Assessment of whether PIP required updating
Complete: In response to the IASB's decision to extend the comment period of its public consultation from 31 July 2026 to 30 November 2026, the UKEB decided to extend the comment period for the Invitation to Comment (ITC) on the UKEB's Draft Comment Letter (DCL) from 60 days to approximately 175 days. The UKEB agreed to update and re-publish the PIP with the amended comment deadline at its 21 May 2026 meeting.

Education Session/s (optional) [Handbook 4.10]
Board provided with Education session/s
Complete: The Secretariat provided the Board with [four] Education Sessions: • Board Education Session 1 (9 December 2025): Introduction to banks and risk management • Board Education Session 2 (27 January 2026): Introduction to the Risk Mitigation Accounting model Part A • Board Education Session 3 (24 February 2026): Introduction to the Risk Mitigation Accounting model Part B • [Board Education Session 4 (24 November 2026): Risk Mitigation Accounting: Key issues identified]

Milestone: Desk-based Research (optional) [Handbook 5.9 and A3]
Review of relevant documentation
Complete: The Secretariat has reviewed: • The IASB's work on the Proposed Amendments and related projects (staff papers, ED, webcasts). • The Basis for Conclusions to the ED. • Proposed Illustrative Examples and Implementation Guidance to the ED. • Other standard-setters' views. • Relevant material produced by third parties, including accounting firms.

Milestone: Outreach Activities [Handbook 5.10–5.12 and A4–A8]
Evidence of consultation
Complete: Consultation activities focused on: • obtaining responses to the DCL; • engagement with the relevant UKEB advisory and working groups, including hosting two roundtables; and • targeted stakeholder outreach. For further details, refer to the relevant Feedback Statement. The UKEB received 7 comment letters.

Milestone: Draft Comment Letter (DCL) published for comment (Mandatory unless impracticable) [Handbook 5.13–5.17 and A4(d)]
The UKEB sets comment period for responses to Draft Comment Letter and published on website for public consultation
Complete: The DCL was initially published for consultation for 60 days on 28 April 2026. On 21 May 2026, the UKEB decided to extend the comment period from 60 days to approximately 175 days (comment period deadline: 21 October 2026). The relevant documents were updated accordingly and re-published on the website to reflect the extended comment period deadline.
Review and approval at a UKEB public meeting
Complete: The DCL was reviewed and approved at the 26 March 2026 Board meeting subject to further revisions. The UKEB agreed to extend the comment deadline for the DCL at its 21 May 2026 meeting.

Milestone: Final Comment Letter (FCL) [Handbook 5.18 and A4(d)]
Public responses to DCL assessed and published on website
Complete: The UKEB received 7 comment letters, six of which were published on the UKEB website (one stakeholder requested to keep its comment letter confidential). All responses were assessed, reflected as appropriate in the FCL and summarised in the Feedback Statement.
FCL approved by the UKEB in public meeting
[Complete: A draft of the FCL was presented for approval to the Board at its 26 November 2026 public meeting. The Board approved the FCL, subject to suggested amendments].
FCL submitted to the IASB and posted on UKEB website
[The FCL was submitted to the IASB and posted on the UKEB website on XX Month 2026.]

Milestone: Feedback Statement [Handbook 5.19–5.22 and A9–A11]
Feedback Statement approved for publication by the UKEB in a public meeting
[Complete: A draft of the Feedback Statement was presented for approval to the Board at its 26 November 2026 public meeting. The Board approved the draft Feedback Statement, subject to suggested amendments.]
Feedback Statement published on the UKEB website
[Complete: The final Feedback Statement was published on the UKEB website on XX Month 2026.]

Milestone: Due Process Compliance Statement (DPCS) [Handbook 5.23–5.26 and A12–A14]
DPCS approved by the UKEB in public meeting
[Complete: A draft DPCS was presented for approval to the Board at its 26 November 2026 public meeting. [A final DPCS was presented for noting at the Board's 10 December 2026 meeting.]
DPCS published on the UKEB website
[Complete: The final DPCS was published on the UKEB website after the December 2026 Board meeting.]

Communications (mandatory) [Handbook 4.20–4.25 and A4(d)]
Board meeting papers posted and made publicly available usually no later than 5 working days before a Board meeting
Complete: The UKEB's meeting papers were published on the UKEB website 5 working days before the public meetings. Meeting minutes and recordings were made publicly available via the UKEB website.
Project webpage contains a project description with up-to-date project information
Complete: The project webpage has been updated regularly on a timely basis.
Subscriber alerts
Complete: Subscribers were alerted via email 5 working days before each Board meeting, with links to the agenda, papers and the option to dial in to observe the discussion.
News Alerts
Complete: News Alerts were published on 28 April 2026 to announce the publication of the DCL and on 29 May 2026 to announce the extended deadline for the DCL. Further news alerts were published between May and October 2026 calling for comments. [A News Alert announcing the publication of the FCL and the Feedback Statement was published on XX Month 2026.]

Conclusion
This project complies with the applicable due process steps, as set out in the December 2022 Handbook.