Institute and Faculty of Actuaries

October 2026

IFOA RESPONSE TO EXPOSURE DRAFT 'RISK MITIGATION ACCOUNTING – PROPOSED AMENDMENTS TO IFRS 9 AND IFRS 7

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1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to comment on the International Accounting Standards Board's (IASB) Exposure Draft (ED) *Risk Mitigation Accounting (RMA) – Proposed amendments to IFRS 9 and IFRS 7*, dated December 2025. We have been actively engaged in the development of insurance accounting, in particular IFRS 17 *Insurance Contracts*, for a number of decades, including responding to each ED published by the IASB and supporting the International Actuarial Association (IAA) global IFRS 17 work. In this context, our response focuses solely on Question 11 of the ED and the application of RMA to insurers in the UK.

2. It is important to note that, as for any IFoA response, we have considered the IASB ED on RMA from an independent, public interest perspective.

3. In the UK, many insurers' regulatory position, known as Solvency UK, is the primary basis used to determine hedging strategies. Solvency UK is Solvency II as amended in the UK post-Brexit by the Prudential Regulation Authority, part of the Bank of England. This reflects both solvency capital requirements and the basis on which dividends can be paid by insurance operations in the UK. UK insurers actively hedge many financial risks, such as equity, inflation and interest rate risk, using derivatives and other instruments.

4. Unlike UK banks, IFRS financial statements do not form the starting point for Solvency UK and, therefore, IFRS is typically a secondary consideration when UK insurers determine hedging strategies. In particular, IFRS financial statements, unlike Solvency UK, do not include solvency capital requirements or future profits on unit-linked investment contracts (as accounted for under IFRS 9 *Financial Instruments*). As a consequence, to the extent that UK insurers hedge these components of the Solvency UK balance sheet, they are 'over-hedged' on an IFRS basis, resulting in additional volatility in IFRS profit and shareholders' equity. This disconnect between IFRS and Solvency UK is evident in the Adjusted Operating Profit measures reported by FTSE 100-listed UK life insurers and in the prevalence of Solvency UK-related Alternative Performance Measures (APMs or KPIs) used to manage insurance operations. The volatility in IFRS profit arising from hedging on a Solvency UK basis is commonly presented by UK life insurers as a distinct, and sometimes very significant, component of non-operating profit.

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5. In addition, certain aspects of accounting for insurance contracts under IFRS 17 both support and potentially hinder the faithful representation of hedging or introduce interest rate mismatches. For example, the Risk Mitigation Option (RMO) in IFRS 17 paragraphs B115 to B118 permits changes in the value of financial options and guarantees embedded within insurance contracts (accounted for under the variable fee approach) to be recognised in profit or loss rather than the contractual service margin (CSM), thereby closer to the recognition of changes in related hedging instruments (e.g. derivatives).

6. However, the locked-in interest rate applied to the CSM under the general measurement model results in counter-intuitive interest rate mismatches, which are presented by all FTSE 100 UK life insurers within non-operating profit. This arises because the assets backing the CSM liability are typically measured at fair value through profit or loss (although some life insurers reduce this mismatch by holding asset portfolios at amortised cost). In addition, when changes in future cash flows result in an unlocking of the CSM, counter-intuitive interest rate-related profit or loss can arise due to differences between current and locked-in rates. For example, for an annuity in payment, a reduction/increase in life expectancy (a favourable/non-favourable outcome from an insurer's perspective) reduces/increases future cash flows (measured at current rates) and increases/reduces the CSM by a larger amount (as the locked-in rates are typically lower than current rates), resulting in a counter-intuitive loss/profit for the insurer.

7. In our view, the IASB ED on RMA is unlikely to achieve the objective of better representing, in the financial statements, the economic effects of UK insurers' risk management activities, given the differences between an insurer's regulatory and IFRS position. In our experience, such a disconnect also exists in other territories. This is an area that, in our view, requires significant further analysis and consideration.

We trust that these comments will be helpful to the IASB in its assessment of the RMA ED. We reiterate the IFoA's strong commitment to supporting the IASB on insurance accounting matters and, in particular, would welcome the opportunity to discuss our comments further with the IASB.

Should you wish to discuss any of these points further, please contact Caroline Winchester in the first instance, caroline.winchester@actuaries.org.uk.

From:	Caroline Winchester
To:	UK Endorsement Board
Subject:	IFoA comments on Risk Mitigation Accounting – Proposed amendments to IFRS 9 and IFRS 7.
Date:	16 October 2026 14:03:05
Attachments:	image001.png IFoA response to IASB consultation Risk Mitigation Accounting.pdf

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In response to your invitation to comment on your draft letter to the IASB's Exposure Draft on Risk Mitigation Accounting–Proposed amendments to IFRS 9 and IFRS 7, we are pleased to share our own submission to the IASB. We are happy for this to be made public on the UKEB website.

Please feel free to get back to me if there are any points you wish to discuss.

Kind regards
Caroline

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Senior Policy Specialist

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Integrity
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Performance

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