CONSULTATION RESPONSE

Response to the UKEB Draft Comment Letter on the IASB Exposure Draft: Risk Mitigation Accounting

ALMIS International Limited, Edinburgh | 14 October 2026

We welcome both the IASB's proposed Risk Mitigation Accounting (RMA) model and the UKEB's thoughtful analysis of the Exposure Draft. Based on our experience supporting the implementation of IAS 39 macro fair value hedge accounting across more than 60 UK banking institutions since its adoption in 2005, we believe the proposed RMA model represents a significant and much needed step forward in the accounting for interest rate risk management and an important replacement for the limitations of existing IAS 39 macro hedge accounting approaches.

Importantly, the proposed model has value beyond financial reporting alone. By requiring institutions to define risk mitigation objectives, quantify net repricing risk exposures and measure the effectiveness of risk mitigation activities against those objectives on an ongoing basis, the framework has the potential to improve transparency, consistency and auditability in the measurement and communication of hedge performance. In many respects, the proposals move accounting significantly closer to the way benchmark interest rate risk is actually managed in practice.

Although implementation may require some enhancements to existing treasury and accounting infrastructure, we do not believe the proposed model introduces a fundamentally new operational paradigm for institutions already operating IRRBB under UK regulations (eg FSA 017) and IAS 39 macro hedge accounting frameworks. Many of the underlying capabilities required by the proposed RMA model, including behavioural cashflow modelling, PV01 / stress sensitivity, repricing analysis and portfolio-based risk aggregation, are already embedded within existing IRRBB and hedge accounting environments.

On the PV01 / time band constraint (UKEB paragraphs A22–A24)

We welcome the UKEB's identification of this issue and agree that it warrants clarification from the IASB. However, we would encourage the UKEB to present this as a targeted and readily addressable amendment rather than a broader concern with the proposed model itself. In our view, it should not detract from what is otherwise a transformational improvement in the accounting for benchmark interest rate risk management.

Based on our experience, the issue arises structurally from the way benchmark interest rate risk is managed in practice. A common example is where bullet derivatives are used to hedge naturally amortising underlying exposures. The amortising asset distributes PV01 sensitivity

across multiple repricing time bands, whereas the bullet swap concentrates PV01 sensitivity in a single maturity bucket.

As a result, the constraint in paragraph 7.4.1 may indicate that the risk mitigation objective exceeds the net repricing risk exposure within an individual repricing time band, despite the hedge being economically appropriate and fully consistent with the institution's aggregate risk limits.

More fundamentally, PV01-based interest rate risk management is not performed independently within isolated repricing time bands. A parallel shift in the benchmark yield curve affects all time bands simultaneously, and sensitivity in one maturity bucket can naturally offset sensitivity in another.

Institutions managing benchmark interest rate risk on a PV01 basis are therefore managing aggregate exposure to benchmark rate movements across the portfolio as a whole, rather than separate standalone sensitivities within individual repricing time bands.

We recognise that aligning exposures and hedging instruments by detailed repricing time bands may provide additional protection against non-parallel yield curve movements.

However, the selection and granularity of repricing buckets is inherently arbitrary and varies significantly between institutions. In practice, interest rate risk management is typically governed through aggregate PV01, PV200, duration and stress-based measures across the managed portfolio rather than through strict bucket-by-bucket neutrality.

Accordingly, whilst time band analysis may remain a useful risk management metric, it should not operate as a hard qualifying constraint within the accounting model.

Whilst more granular cashflow modelling improves measurement precision and non-parallel hedge effectiveness, it does not eliminate the underlying structural mismatch between naturally amortising exposures and concentrated bullet hedging instruments. In practice, many institutions will therefore continue to apply weighted average duration or similar proxy approaches when constructing benchmark derivatives, which can further amplify the effect of the proposed constraint.

The proposed restriction in paragraph 7.4.1 therefore imposes a granularity that is inconsistent with both economic reality and prevailing risk management practice. In our view, this is not a conceptual flaw in the RMA model, but simply a consequence of applying a repricing time band level constraint to a portfolio-based risk management framework.

The amendment required is straightforward. We note that paragraph 7.4.8(d) requires an entity to recognise in profit or loss any amount by which the accumulated risk mitigation adjustment exceeds the present value of the net repricing risk exposure at the reporting date. This assessment is performed against the aggregate net repricing risk exposure across the mitigated time horizon rather than on a repricing time band by repricing time band basis.

In our view, the same aggregate portfolio principle should apply to the assessment of the risk mitigation objective in paragraph 7.4.1. Applying that constraint at the aggregate portfolio level would fully resolve the issue, align the requirement with established industry practice, and remain entirely consistent with the broader mechanics of the RMA model.

We would therefore encourage the UKEB to recommend this targeted amendment to the IASB and to make clear in its final response that, once addressed, this issue should not represent a barrier to endorsement of the proposed framework.

On the credit risk issue

We also acknowledge the UKEB's observations regarding credit risk and commercial margins. However, in practice, most institutions do not hedge commercial lending margins as part of benchmark interest rate risk management. Because the proposed model is based on benchmark-rate repricing risk, institutions are able in practice to define managed exposures and risk mitigation objectives that focus on benchmark interest rate risk rather than commercial margin components.

In our view, this issue is therefore operationally manageable within the proposed framework and does not represent a fundamental limitation of the model.

Overall conclusion

Overall, we believe the proposed RMA model is a substantial improvement over existing macro hedge accounting approaches and represents a more economically coherent reflection of how institutions manage benchmark interest rate risk in practice. The remaining concerns identified are, in our view, operational refinements rather than fundamental conceptual weaknesses.

With targeted amendments and practical implementation guidance, the proposed model could provide a robust long-term framework that aligns accounting much more closely with interest rate risk in the banking book (IRRBB) management practices, while also improving transparency, consistency and auditability for preparers, auditors and users of financial statements.

Our recommendation

We would therefore strongly encourage the UKEB to support endorsement of the proposed RMA framework and to continue engaging constructively with the IASB to address the limited operational refinements identified in its response.

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