Our Ref: ABI-FCRC-26-29

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21/10/2026

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ABI response to the UK Endorsement Board's Draft Comment Letter on Risk Mitigation Accounting – proposed amendments to IFRS 9 and IFRS 7

The Association of British Insurers (ABI) welcomes the opportunity to comment on the UKEB's draft response. We support the objective of better representing the economic effects of interest-rate risk management in financial statements. For insurers, managing long-term obligations and associated capital requirements, differences between the economic exposures being managed and their accounting treatment can create significant reporting mismatches.

This targeted response sets out our principal recommendations on insurance application, informed by member feedback and work undertaken with other stakeholders, including the IASB. We are developing a fuller proposal in our response to the IASB. Our central request is that the UKEB support an industry-agnostic solution developed and tested within the current project, rather than defer consideration of insurers.

1. **Develop an industry-agnostic solution within the bounds of the current Risk Mitigation Accounting project**

Relevant DCL paragraphs: A11-A12 and A65-A67

We welcome the UKEB's overall support for an approach not restricted to a particular industry. However, we disagree with the recommendation in A67 to make the model suitable for banks before considering insurers. Deferring insurance consideration risks embedding design choices that do not accommodate insurers' needs and leaving significant accounting mismatches unresolved.

The fact that UK insurers manage exposures on a regulatory basis should inform the model's development, rather than justify postponement. Members' discussions with the IASB suggest that some issues concerning risk perimeter and capital-related exposures are shared with banks, although their magnitude may differ. We therefore ask the UKEB to support consideration of these needs together, drawing on the insurance-led work already presented to the IASB through conduits such as the ICAEW.

2. **Align the underlying portfolios and NRRE with actual risk management**

Relevant DCL paragraphs: A17-A24 and A65-A67

Adding insurance liabilities alone would not necessarily make the model workable. We ask the UKEB to support development and testing of the full risk-management-perimeter approach presented to the IASB by UK insurers. This would accommodate relevant insurance and reinsurance exposures and backing assets, including FVTPL assets, consistent with actual risk-management practices.

In particular, the model should permit the interest-rate sensitivity associated with the Solvency Capital Requirement (SCR) to be reflected in the net repricing risk exposure (NRRE), where it forms part of actual risk management. This concerns the sensitivity of the managed exposure; it is not a proposal to recognise the SCR itself as an IFRS liability.

The calculation of the risk mitigation adjustment should also accommodate the relevant interest-rate movements on FVTPL assets backing the SCR. The links between regulatory sensitivities and the relevant IFRS exposures require further substantiation and testing but warrant explicit consideration in the UKEB's response.

3. **Preserve a balance sheet adjustment alongside an OCI option**

Relevant DCL paragraphs: A35-A40 and A61

We recognise the UKEB's concerns about the justification for a balance-sheet adjustment, particularly where interest-rate effects are already reflected in the measurement of underlying items. However, an OCI-only approach would not address all the mismatches identified by UK insurers. A balance-sheet adjustment remains necessary to address circumstances in which the economically managed exposure is not fully reflected in IFRS measurement, while movements on mitigating financial instruments are recognised at fair value. The justification and measurement of that adjustment should be developed with appropriate safeguards.

An OCI mechanism is also needed where derivatives mitigate exposures whose relevant movements are recognised in OCI under IFRS 9 or IFRS 17. We support its availability in appropriate circumstances, but it should not be presented as the preferred or sufficient solution for UK insurers generally. The interaction between the two mechanisms needs further development; neither should be excluded in advance.

4. **Accommodate actual sensitivity-based risk management**

Relevant DCL paragraphs: A5, A16, A22-A24 and A29-A34

We support the UKEB's concerns about applying the proposals where risk is managed using present-value sensitivity measures. The model should accommodate aggregate sensitivity-based management where that reflects actual practice, rather than require an artificial time-band decomposition that constrains or misrepresents the risk mitigation objective. Clarification alone may not be sufficient; amendments to the IASB's draft should be considered where necessary. Appropriate disaggregation may still be needed for accounting measurement and release, and non-linear exposures require careful consideration. However, changing otherwise sound economic risk-management practices should not be treated as the preferred way to overcome limitations in the accounting model.

5. **Consider transition and IFRS 9/IFRS 17 interactions together and in more detail**

Relevant DCL paragraphs: A53-A60

We welcome the UKEB's attention to transition, including off-market derivatives and existing fair-value designations. Insurance transition requires broader consideration of the interaction with IFRS 9 and IFRS 17 choices, including any relevant outcomes of the IFRS 17 post-implementation review.

Transition should produce meaningful and comparable outcomes, rather than perpetuate mismatches solely because of choices made before RMA was available. We ask the UKEB to qualify its support for prospective application so that appropriate insurance-specific options remain open. These could include reconsideration of relevant elections and assessment of simplified retrospective approaches, subject to feasibility, evidence and safeguards against hindsight. We are not proposing a settled transition method at this stage.

6. **Develop and test the remaining mechanisms**

Relevant DCL paragraphs: A30-A48 and A65-A67

We acknowledge that some important details remain unresolved. These include how the RMA adjustment is subsequently released, the interaction between balance-sheet and OCI mechanisms, benchmark construction, and the operation of the excess test. We ask the UKEB to support further development and testing in this space.

These questions should be addressed as part of the current project, drawing on insurance examples and stakeholder work. They are not, in themselves, a reason to defer insurance application. We ask the UKEB to recognise both the progress made in identifying a potential approach and the need for further evidence before its detailed mechanics can be finalised.

7. **Ensure proportionality and recognise future risk-management needs**

Relevant DCL paragraphs: A61-A64

We support voluntary application of RMA, consistent with the elective nature of hedge accounting under IFRS 9. Disclosure requirements should be proportionate and provide useful information without unnecessary duplication. We would like to draw the UKEB's attention to situations where an insurer's activities meet the scope characteristics, but the model is not workable for its risk management. Additional disclosures should not become a substitute for addressing those limitations within the RMA model.

Other hedging risks beyond interest rates warrant future consideration, without expanding or delaying the current project.

We would welcome further engagement with the UKEB as this work progresses.

Yours sincerely

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We represent more than 300 firms within our membership including most household names and specialist providers, providing peace of mind to customers across the UK.

Our sector is productive, inclusive and essential to the UK economy and together, we are driving change to protect and build a thriving society.

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