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Amtsgericht Düsseldorf,
Vereinsregister VR 3850

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

Düsseldorf, 27 November 2026
[602/579]

Dear Mr Woods,

Re.: IASB Exposure Draft (ED)/2025/1: Risk Mitigation Accounting – Proposed amendments to IFRS 9 and IFRS 7

The IDW (Institut der Wirtschaftsprüfer in Deutschland e.V.)[1] is pleased to respond to the International Accounting Standards Board's IFRS Accounting Standard Exposure Draft (ED)/2025/1 *"Risk Mitigation Accounting – Proposed amendments to IFRS 9 and IFRS 7".*

We welcome the IASB's significant efforts in developing a model that reflects in the financial statements risk management activities relating to repricing risk arising from portfolios of financial instruments, with the aim of eliminating or reducing accounting mismatches between underlying items and derivatives used to manage repricing risk.

Nevertheless, as outlined in more detail below in our responses to the specific questions in the ED, we have strong concerns as to whether this stated objective can be achieved under the proposed model. While we support the need to reflect core accounting principles, the resulting IFRS Accounting Standard needs also to be capable of faithfully representing the risk management activities of an entity under IFRS.

We are concerned that key requirements of the RMA model are not sufficiently clear or operational to ensure consistent application and could therefore result in diversity in practice, even for comparable risk management approaches applied to similar financial instruments, depending on the interpretation of unclear terms and requirements. This concern relates particularly to the lack of clear requirements of how benchmark derivatives are to be constructed and updated in response to unexpected changes, which are not defined but are key to the model, as well as to the potential need to perform the risk mitigation excess test. The latter may itself give rise to significant accounting volatility even though the underlying economic position remains hedged and does not give rise to

[1] The IDW is a voluntary membership organisation representing the interests of the profession of public auditors in Germany and counts over 79 % of this profession as members.

corresponding economic volatility. Unless these key requirements are further developed, sufficiently clarified and well understood, it does not appear possible to assess with sufficient confidence whether the accounting under the proposed model provides more useful information than the currently available accounting models (also considering the EU Carve-Out).

Given the significant efforts undertaken by the IASB and all stakeholders involved in the project, we strongly suggest that the IASB further develop the model, taking into account the feedback from field testing and comment letters received on the ED, so that its key mechanics and requirements can be sufficiently field-tested and re-exposed before being included in a final Standard. This is particularly important in the light of the proposed withdrawal of the IAS 39 portfolio hedge accounting requirements, which, in our view, should only occur once the new requirements have been properly assessed as to whether they result in a more reliable and faithful representation of the economic effects of risk management activities in the financial statements.

Further, we would like to comment on the specific questions of the ED as follows:

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.

We welcome the IASB's efforts to develop a hedge accounting model that is capable to better reflect risk management activities than the current portfolio hedge model under IAS 39. However, we observe that the objective of representing the economic effect of an entity's risk management activities when the entity manages repricing risk on a net basis may not be fully achieved in practice if the risk management includes items that are not eligible under the proposed model. Examples of such instruments include financial instruments measured at fair value through profit or loss, equity instruments, and lease assets or liabilities. Broadening the scope of the model in this respect might help to better achieve its stated objective. At the same time, however, doing so might give rise to additional conceptual challenges that would need to be addressed.

We acknowledge that the recognition of the risk mitigation adjustment in the statement of financial position does already not meet the definition of an asset or a liability in the Conceptual Framework

and that further departures might therefore be justifiable for the similar reasons. Nevertheless, we encourage the IASB to reconsider the objective of the forthcoming amendments as set out in paragraph 7.1.3, as a comprehensive representation of risk management activities would require further concessions regarding the restrictions proposed in the ED as well as departures from established accounting conventions.

We also support the proposed amendments being applied on a voluntary basis.

However, we would ask the Board to clarify the meaning of the phrase “an entity is permitted”. For example, assume an entity has two portfolios, Portfolio I and Portfolio II, both managed on a net basis, and elects to apply risk mitigation accounting to Portfolio I. It is unclear whether the entity may choose whether also to apply risk mitigation accounting to Portfolio II or whether it would be required to do so. The same question arises at group level. If a group has two subsidiaries, A and B, both managing their respective portfolios on a net basis, and elects to apply risk mitigation accounting to Subsidiary A, it is unclear whether the group may choose whether also to apply risk mitigation accounting to Subsidiary B or whether it would be required to do so.

Further, we believe that the characteristics of risk management activities specified in paragraph 7.1.4 should be reconsidered. While the criteria in (a) and (b) appear to apply to a relatively wide range of entities, criterion (c) might exclude entities with similar risk management activities that manage risks only on a gross basis. We therefore encourage the IASB to clarify whether a risk management strategy under which risks are managed on a gross basis, for example by managing a portfolio of assets and a portfolio of liabilities separately, could also qualify for the RMA model. In addition, the reference to an “underlying portfolio” in criterion (c) might preclude entities from applying the proposed amendments if their risk management also includes instruments that cannot form part of an underlying portfolio under the proposed requirements.

The IDW agrees that the application of risk mitigation accounting should only be permitted if an entity formally documents how it applies the model. While we appreciate that the required documentation will depend on the particular facts and circumstances of the respective entity, further guidance on the link between an entity’s risk management activities and the inclusion of eligible instruments in the Net Repricing Risk Exposure (NRRE) might be helpful to avoid an entity selecting only a subset of eligible instruments for inclusion in the NRRE in order to achieve a particular accounting outcome.

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.

We agree with the proposed eligibility criteria for financial instruments to be included in underlying portfolios. In particular, we support the inclusion of demand deposits. Regarding other transactions and instruments that are currently not eligible for inclusion in underlying portfolios, we refer to our response to Question 1, in which we note that, in order to achieve the stated objective of the proposals, the IASB might need to consider including additional transactions and instruments beyond those currently envisaged. However, in doing so, we also encourage the IASB to carefully consider the measurement implications for such transactions and instruments to avoid unintended consequences.

The current proposals do not explicitly include issued equity instruments for conceptual reasons, but propose an alternative approach based on a proxy model. We appreciate the IASB's efforts to reflect the fact that equity is frequently included in entities' risk management activities. However, consistent with our response to Question 1, we would encourage the IASB to clarify the scope of eligible equity instruments for the purpose of determining the NRRE, in particular whether the proxy can also be applied to instruments managed as fixed-rate exposures or subject to Economic Value of Equity (EVE) measures.

This suggestion also applies to financial instruments measured at fair value through profit or loss, because we observe that entities' risk management activities do not necessarily distinguish between the measurement bases applied to underlying instruments.

In general, we observe that limiting the types of instruments eligible for inclusion in the NRRE might reduce the alignment between an entity's risk management and risk mitigation accounting. This concern also arises where risk management activities are performed at a lower level than the consolidated level at which the risk mitigation accounting is applied. Similar clarification is needed where two subsidiaries have distinct NRREs that offset each other only at group level while being managed separately at subsidiary level.

We appreciate that micro-hedging relationships involving aggregated exposures can be included in the NRRE. However, we note that not all economic hedging relationships are necessarily designated in hedging relationships under IFRS 9 and that the requirements in IFRS 18 do not differentiate, with regard to the classification of gains and losses on derivatives, between derivatives designated as part of a hedging relationship under IFRS 9 and derivatives merely used to manage identified risks. Against this background, we encourage the IASB to either retain the requirement that "first-level" relationships be designated as hedging relationships under IFRS 9, accompanied by an explanation

in the Basis for Conclusions of why this is the case, or also permit economic hedging relationships to be included in the determination of the NRRE, provided those relationships are part of an entity's net risk management activities.

Regarding the inclusion of future transactions, we would appreciate further guidance and conceptual justification from the IASB on how to distinguish between forecast transactions, an established and well-known concept, and refinancing and reinvestment transactions as described in paragraph 7.2.4 (a) and (b) of the ED. The latter are eligible for inclusion if they are "expected" but, as we understand the proposed amendments, are not required to meet the "highly probable" criterion that applies to forecast transactions.

We would also welcome clarification from the IASB on the distinction between interest rate risks and "other risks". This also applies to the explanation in the last sentence of paragraph BC60 of the ED and the proposed requirements in paragraph 7.2.2 regarding variability attributable to interest rate risk. In particular, it is unclear how the possibility of designation in a general hedging relationship interacts with the requirement to exclude repricing risk that has already been mitigated by other means.

Lastly, we observe that the term "repricing risk" is defined in the ED but would benefit from further clarification or illustrative guidance as to whether one-sided risks, (tenor) basis risks or foreign exchange basis risks are within the scope of that definition.

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

(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.

We observe that the consideration of time bands is not a fundamentally new concept, as a similar approach is already applied under the existing portfolio hedge accounting requirements of IAS 39. However, those requirements are not based on a "net exposure" within each time band. It might therefore be unclear whether an entity that does not manage a net exposure (e.g. only assets) within individual time bands would be eligible to apply risk mitigation accounting. We encourage the IASB to clarify this aspect. In addition, the establishment of, and allocation to, time bands should be

consistent with how risk management is performed, as risk management often considers and mitigates risk exposures across time bands.

As mentioned already in our response to Question 2, the eligibility criteria for determining the NRRE might limit the alignment with how an entity makes risk management decisions, e.g. where the level at which risk management activities are performed differs from the consolidated level at which risk mitigation accounting is applied.

Lastly, we observe that the dominance of credit risk is an eligibility criterion for designated derivatives, whereas no similar requirement has been proposed for determining underlying portfolios and NRRE. To improve clarity, the IASB should provide further guidance on whether and, if so, how credit risk should generally be considered in this context.

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.

The IDW welcomes the IASB's proposal to permit a wide range of derivatives, including options, to be used as designated derivatives.

We also agree, from a conceptual point of view, that only external derivatives should be eligible as designated derivatives. However, we observe that this requirement might result in a misalignment with actual risk management activities where internal derivatives are also used for risk management purposes.

More specifically, paragraph 7.3.1 states that "For the purposes of applying risk mitigation accounting, designated derivatives are interest rate derivatives *that are used to manage* an entity's repricing risk." (emphasis added). Many banks *use* derivatives to manage repricing risk at the respective risk management level that are, however, internal derivatives from a group perspective. Hence, the requirement in paragraph 7.3.1 appears to conflict with paragraph 7.3.4, which clearly states: "Only derivatives with a party external to the reporting entity are eligible to be included as designated derivatives. Derivatives between entities in the same group *can only be included* as designated derivatives for the purposes of applying risk mitigation accounting *in the individual or separate financial statements* of those entities and *not in the consolidated financial statements* of the group." (emphasis added).

Read literally, these paragraphs could result in a situation in which an entity is unable to designate any derivatives because the derivatives it actually *uses* for risk management purposes are internal derivatives from a group perspective and therefore cannot be designated under paragraph 7.3.4, while the derivatives it has entered into with external parties are *not used* for risk management

purposes at the respective risk management level and therefore cannot be designated under paragraph 7.3.1 either. A potential solution could be to require the derivatives that are *used* for risk management purposes to be externalised from a group perspective.

In addition, we would welcome further clarification from the IASB on the requirements applicable when options are used as designated derivatives, particularly regarding the treatment of time value and intrinsic value. Further clarification would also be helpful for linear hedging instruments, such as swaps, that have a fair value other than zero at designation because they are designated some time after initial recognition.

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.

We observe that the construction of benchmark derivatives represents one of the most critical and potentially complex elements in determining the risk mitigation adjustment. This is because the amount of the risk mitigation adjustment to be recognised in the statement of financial position is mainly driven by the characteristics of the benchmark derivatives representing the risk mitigation objective derived from the NRRE. Given the stated departure from the Conceptual Framework's definitions of assets or liabilities, these characteristics are also key to justifying the recognition of the risk mitigation adjustment.

Establishing clear requirements for constructing benchmark derivatives also requires a distinction between expected and unexpected changes. The ED describes the accounting consequences of unexpected changes but neither includes requirements for expected changes nor provides guidance on how to distinguish expected from unexpected changes. Further clarification is also needed regarding the subsequent treatment of a benchmark derivative in the event of unexpected changes in the NRRE, in particular how retrospective adjustments should be applied, whether from inception or from the beginning of the period since the last update.

We therefore urge the IASB to enhance the requirements for benchmark derivatives and provide further guidance, ideally accompanied by illustrative examples. Without such guidance, we are concerned that benchmark derivatives may not always accurately reflect the current interest rate risk in the underlying portfolio. We are also concerned that this issue might not be fully addressed by the proposed risk mitigation excess test.

The IDW acknowledges that the proposed requirement for benchmark derivatives to have a fair value of zero upon initial recognition is similar to the requirement for linear hypothetical derivatives used in general hedge accounting relationships. However, as the proposed requirement does not distinguish between linear and non-linear derivatives, it raises practical questions where options are used as designated derivatives. Such options may have an intrinsic value of zero at initial recognition but would generally have a fair value other than zero due to their time value.

We note that the IASB has discussed the possibility of linking this requirement to linearity and aggregated exposures, as well as the cost of hedging. Based on this discussion, we understand that, after applying aggregated exposure accounting to non-linear exposures, only the resulting linearised exposure might be included into the NRRE. Accordingly, the requirement for benchmark derivatives to have an initial fair value of zero might be addressed through such an approach. However, if these conclusions remain valid, the final amendments would benefit from an example illustrating this approach and clarifying how the requirement for an initial fair value of zero would apply where aggregated exposures are included in designated derivatives.

Another challenge related to the requirement for benchmark derivatives to have a fair value of zero concerns the treatment of uncertainties such as default risk, prepayments, extensions, and other behavioral factors, as well as late hedges, in particular where an exposure is designated after being acquired in a business combination or upon transition from IAS 39 to risk mitigation accounting, and optionalities. While we believe that these issues are less challenging than the aforementioned issue regarding options, we encourage the IASB to provide further explanations in the Application Guidance or Basis for Conclusions to avoid diversity in practice.

Additionally, there may be difficulties in determining the risk mitigation objective for each repricing time band, particularly if risk management does not distinguish between overhedging and underhedging as long as exposures remain within risk limits. While we agree conceptually that overhedging should not be reflected in risk mitigation accounting, the accounting requirements for overhedges may result in further misalignment between risk management practices and financial reporting.

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

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.

The IDW agrees with the application of the *lower-of* test for the purpose of determining the risk mitigation adjustment. We consider this approach conceptually appropriate to ensure that the recognised adjustment reflects the lower of the cumulative gains or losses on the designated derivatives and the cumulative change in the fair value of the benchmark derivatives, as proposed by the IASB.

However, we encourage the IASB to further clarify the interaction between adjustments to benchmark derivatives following unexpected changes and the application of the risk mitigation excess test. We note that the IASB has already provided further explanations on this interaction in a webcast and therefore expect those explanations to be incorporated when standard setting proceeds. As we understand the risk mitigation excess test to be a "fallback" test designed to ensure that the risk mitigation adjustment is realisable, it would be beneficial if the final amendments provided further guidance on when and how this test should be applied. We would also welcome illustrative examples, which should clarify whether and when this test can be performed based solely on qualitative indicators only.

Specifically, the example in IE27 of the ED should be expanded in the final amendments to address potential application uncertainties as thoroughly as possible. A more comprehensive illustration would help preparers interpret and implement the requirements correctly and consistently.

We are aware of situations where the application of the risk mitigation excess test could be triggered even though risk management continues to be effective, resulting in the risk mitigation adjustment being released to profit or loss. This would give rise to volatility that does not reflect the underlying hedged economic position. Accordingly, we have conceptual concerns as to whether the application of the risk mitigation excess test provides reliable and useful information in such circumstances. We therefore encourage the IASB to consider suitable alternatives to ensure that the risk mitigation adjustment remains realisable throughout the hedged period.

The IDW also observes that the granularity of the risk mitigation adjustment could be perceived as unclear. While the NRRE and the risk mitigation objective are determined at the respective repricing

time band level, it appears that both the risk mitigation adjustment and the risk mitigation excess test are applied at a more aggregated level.

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.

We agree with the proposal that an entity should discontinue risk mitigation accounting prospectively from the date on which the entity's risk management strategy changes. To avoid interpretation issues, the final amendments would benefit from further guidance or examples to distinguish between a change in risk management strategy as described in paragraph B5.7.2 of the ED and a change in the way the strategy is executed. In our view, a change in risk management strategy should generally involve significant changes in risk management. Such changes are expected to be rare and should be significant to the entity's operations and demonstrable to external parties.

The IDW encourages the IASB to clarify in paragraph B7.5.3 that a change in the assessment method resulting from a move to another time band does not result in a discontinuation of risk mitigation accounting. In addition, the requirements would be clearer if the explanations in paragraphs BC124–BC126 were incorporated into the main body of the Standard.

Lastly, we would welcome clarification from the IASB on whether the risk mitigation excess test would continue to apply after risk mitigation accounting has been discontinued.

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?

We generally support the objective of comparability of financial statements, which is achieved through the application of a single set of financial reporting standards.

However, we note that the IASB has previously permitted a parallel application of hedge accounting requirements following the introduction of the new requirements in IFRS 9. Entities were still permitted to continue applying the previous accounting requirements in IAS 39 until that Standard is fully replaced, which is one of the objectives of the amendments proposed in this ED.

While the accounting outcomes under the existing hedge accounting requirements in IFRS 9 and IAS 39 might be perceived as broadly similar, the accounting outcome under the IAS 39 portfolio hedge accounting requirements is expected to differ more significantly from that under the proposed amendments, given conceptual differences between the two approaches and the respective accounting requirements. We would therefore be reluctant to support the parallel application of two sets of accounting requirements, in the interest of comparability.

As an additional practical consequence, the complete withdrawal of IAS 39 requirements might not be possible when separate line items resulting from the application of those requirements remain recognised in the statement of financial position and need to be amortised over the remaining life of the underlying exposures after the new requirements become effective. If the IASB were to withdraw the relevant IAS 39 requirements completely, we therefore suggest incorporating the relevant IAS 39 requirements into the transition provisions of the final amendments or providing specific guidance on the subsequent amortisation of such separate line items. Such guidance could include a simplified approach under which the related hedge adjustments are amortised on a straight-line basis. This would avoid uncertainty regarding the accounting for these items, as, following the withdrawal of the relevant IAS 39 requirements, neither IAS 39 nor the new requirements in IFRS 9 would provide a basis for their continued recognition and subsequent amortisation.

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.

The IDW agrees that the final amendments should be applied prospectively, which is consistent with the approach taken for the new hedge accounting requirements in IFRS 9.

However, we strongly encourage the IASB to reconsider the requirement for benchmark derivatives to have an initial fair value of zero also upon initial application of the new requirements (we refer to our related comments in response to Question 5). If this requirement were retained, it would give rise to accounting effects that do not reflect an entity's risk mitigation activities but merely result from resetting the benchmark derivatives to a fair value of zero upon transition to the new accounting model. In our view, these effects would not be a temporary effect on transition only, as the construction of the benchmark derivatives would impact also further risk mitigation accounting as long as the risk management objective remains unchanged.

As we generally support the risk mitigation accounting model's objective to better reflecting risk management activities, we are concerned that such an accounting-driven effect arising from the initial application of the model could impair its decision-usefulness without sufficient justification.

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.

We appreciate the proposed disclosures relating to risk mitigation accounting and expect them to result in a significantly higher degree of comparability, given that the current requirements in IFRS 7 include only limited disclosure requirements for portfolio hedges.

However, the proposed extension of disclosure requirements to entities that decide not to apply risk mitigation accounting would require sufficiently precise criteria for determining whether those disclosure requirements apply to an entity. This would require a separate and potentially ongoing assessment of an entity's risk management activities and whether the entity would be eligible to apply risk mitigation accounting even if it does not intend to do so. We therefore recommend that the IASB reconsider whether the disclosure requirements should be extended to entities that do not apply the risk mitigation accounting model and assess whether the disclosure objective regarding risks and risk management is already addressed by the existing requirements in IFRS 7 (we refer to paragraph 33 and paragraphs 40 et seq. of the Standard).

Regarding presentation, we suggest that risk mitigation adjustments relating to discontinued risk mitigation accounting be presented separately in the statement of financial position, together with disclosure of the reasons for discontinuation.

Question relating to entities that issue insurance contracts:

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.

We observe that the RMA model is limited to repricing risk associated with underlying portfolios and that, as proposed in the ED, insurance contracts are not eligible for inclusion in such portfolios.

Assuming that the IASB were to clarify that insurance contracts are eligible for risk mitigation accounting, we note that insurance contracts have specific characteristics that, while sharing some similarities with those of financial instruments, differ significantly from them, including with respect to the accounting requirements in IFRS 17. Without further guidance addressing these specific characteristics and the resulting differences in risk management practices, it is difficult to assess how the inclusion of insurance contracts would achieve the IASB's objective of better reflecting the economic effects of risk management activities. In addition, we note that risks managed on a portfolio basis often include foreign exchange risk and are not necessarily limited to interest rate risk, or more specifically, repricing risk as a subset of interest rate risk. We therefore recommend that, in further developing the RMA model, the IASB takes a more holistically approach to addressing the risk management practices of different types of entities.

We also reiterate our response to Question 10 and suggest that the IASB reconsider the need to extend the disclosure requirements to entities that do not apply the RMA model.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely,

Daniel Siegel

Bernd Stibi
Technical Director
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