

Exposure Draft on Risk Management Accounting (Proposed Amendments to IFRS 9 and IFRS 7)

I would like to share comments regarding this draft which are as follows:

Question 1: Objective and scope of Risk Mitigation accounting (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 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 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

Paragraph 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?

Answer: I would like to comment on above question.

I agree with these proposals due to following reasons:

Repricing risk is the risk that assets and liabilities will reprice at different times or in different amounts. For the purposes of risk mitigation accounting, repricing risk is a type of interest rate risk that arises from differences in the timing and amounts of financial instruments that reprice to benchmarks highest rates. Many entities manage repricing risk on a net basis, by aggregating exposures from financial instruments, instead of assessing risk on the basis of individual instruments or groups of similar instruments. For example, many financial institutions manage repricing risk arising from their banking activities on a net basis.

Many entities take a dynamic approach to managing the repricing risk arising from such open portfolios of financial instruments. This approach is known as dynamic risk management. Entities have faced long challenges in faithfully representing the economic effect of such dynamic and complex risk management activities in financial statements in a way that provides useful information to users of financial statements. So, International Accounting Standards Board (IASB) noted that dynamic risk management for open portfolios is a complex topic that warrants through research and feedback from interested parties. These difficulties also arise because these requirements are typically designed for closed portfolios and assume a stable designation between the hedging items and hedging instruments.

So, IASB started a project on Dynamic Risk Management (now Risk Mitigation Accounting) to develop a risk mitigation accounting model with requirements that entities can apply proportionately, reflecting the sophistication of their business and risk management activities.

In paragraph 7.1.4 , it also ensures that risk mitigation accounting provides useful information to users of financial statements, an entity is permitted to apply risk mitigation accounting if and only if :

- (a) The entity's business activities give rise to the recognition and derecognition of financial instruments that expose it to repricing risk.
- (b) The entity's risk management strategy specifies risk limits within which repricing risk, based on a mitigated rate, is to be mitigated
- (c) The entity mitigates repricing risk arising from underlying portfolios on a net basis using derivatives in accordance with its risk management strategy.