COIMBATORE BRANCH OF SIRC OF ICAI

Comment Letter

Exposure Draft: Risk Mitigation Accounting — Proposed amendments to IFRS 9 and IFRS 7

To:	International Accounting Standards Board (commentletters@ifrs.org) / Accounting Standards Board, ICAI
From:	COIMBATORE BRANCH OF ICAI
Date:	25/08/2026
Subject:	Comments on Exposure Draft ED/2025/[ ] *Risk Mitigation Accounting — Proposed amendments to IFRS 9 and IFRS 7*

General comments

We welcome the IASB's Exposure Draft. The proposed risk mitigation accounting (RMA) model addresses a long-standing gap: neither the IAS 39 portfolio fair value hedge nor the IFRS 9 Chapter 6 general hedge accounting model faithfully reflects how banks manage repricing risk dynamically, on a net basis, across time bands. We support the broad direction of the ED, in particular:

- anchoring the accounting to the entity's actual risk management strategy (net repricing exposure by time band, risk limits, mitigated rate), rather than to instrument-by-instrument designation;
- the "lower of" mechanics for the risk mitigation adjustment (RMA), which avoid recognising gains that do not correspond to a real exposure;
- keeping the underlying portfolios at amortised cost / FVOCI and isolating the effect of risk management in a single, separately presented balance-sheet line.

Our comments below identify areas where we believe clarification, simplification or additional relief is needed — particularly from the perspective of jurisdictions such as India, where (i) interest rate derivative markets are comparatively shallow and concentrated in a few instruments (overnight indexed swaps referenced to MIBOR/policy rate), (ii) a large share of lending is linked to administered or entity-internal benchmarks (external benchmark-linked lending rates, MCLR-type rates), and (iii) risk management infrastructure is built around regulatory interest-rate-risk-in-the-banking-book (IRRBB) gap reporting in prescribed time buckets rather than on internal fair-value measures.

Question 1 — Objective and scope (Section 7.1)

We agree with the objective (7.1.1–7.1.3) and with RMA being voluntary (7.1.5). We also agree that formal documentation (7.1.7) is a necessary discipline given the amount of judgement in the model.

Concerns and suggestions:

1. **Paragraph 7.1.4(b) — "risk limits within which repricing risk, based on a mitigated rate, is to be mitigated".** Many entities express limits in terms of regulatory IRRBB metrics (e.g. earnings-at-risk or economic value of equity limits set with reference to Tier 1 capital) rather than in terms of a single market benchmark rate. It is not clear whether limits expressed that way satisfy 7.1.4(b). We suggest the IASB clarify in the application guidance that risk limits expressed on an aggregate basis (EVE / NII sensitivity) qualify, provided the entity can identify the mitigated rate used in its hedging decisions.
2. **Identification of the "mitigated rate" where lending is linked to administered / internal benchmarks.** In India, floating-rate loans are frequently linked to the central bank policy rate or to an internal cost-of-funds benchmark rather than to a traded index. Derivative markets are referenced to overnight index rates. The ED appears to assume the mitigated rate is a market interest rate (7.5.2 refers to "the market interest rate identified as the mitigated rate"). We request explicit guidance that (a) the mitigated rate need not be the contractual rate of the instruments in the underlying portfolios, and (b) an entity may use a market rate (e.g. an OIS rate) as the mitigated rate for portfolios linked to administered or internal benchmarks, provided the relationship is reasonable and supportable and used in risk management.
3. **Level of application (7.1.6).** We support applying RMA at the level at which risk is managed. However, entities operating in multiple currencies will have one net exposure per mitigated rate; the ED should confirm that each currency's exposure is a separate "subset of underlying portfolios" and that RMA may be applied to some subsets and not others.
4. **Documentation timing.** The ED should clarify whether documentation must be in place at the start of the reporting period in which RMA is first applied, and whether documentation updates that reflect routine recalibration (not a strategy change) can be made at any time without discontinuation.

Question 2 — Underlying portfolios (7.2.1–7.2.4)

We broadly agree with the eligibility criteria and with the inclusion of future transactions (7.2.4).

Suggestions:

1. **Equity-funded assets / "equity modelling" (B7.2.17, Example 23).** We appreciate the acknowledgement of equity modelling. However, B7.2.17 permits its use only as a *proxy* for exposure arising from eligible variable-rate financial assets. Many entities model their equity as a fixed-rate liability replicating portfolio and hedge the resulting exposure directly. We ask the IASB to (a) state clearly in the Standard (not only in application guidance) that replicating-portfolio approaches used in risk management are acceptable inputs to the net repricing risk exposure, and (b) explain the boundary between an acceptable proxy and an ineligible designation of equity itself.
2. **Demand deposits and behaviouralised items (B7.2.4, B7.2.11).** The ED relies on behavioural assumptions for demand deposits and prepayment. We support this. To limit divergence in practice, we suggest a requirement that the behavioural assumptions used for RMA be the same as those used for the entity's regulatory IRRBB reporting, or that differences be disclosed and explained.
3. **Interaction with Chapter 6 (7.2.2).** We support allowing instruments hedged for other risks (e.g. foreign currency) to remain in the underlying portfolios. However, the ED should give an example of a cross-currency interest rate swap that hedges both FX and interest rate risk, and clarify whether the interest-rate leg can be a designated derivative under Chapter 7 while the FX component is accounted for under Chapter 6.
4. **Financial guarantee contracts and loan commitments** measured under IFRS 9 that do not fall within 7.2.1(a)–(b): the ED should confirm whether undrawn committed facilities can be included via 7.2.4(c)/(d) as firm commitments or highly probable forecast transactions.
5. **Intragroup instruments (7.2.3).** We agree. We note this will be a practical constraint for groups whose treasury centralises hedging in one legal entity while the underlying portfolios sit in others; the IASB may wish to acknowledge in the Basis for Conclusions that RMA in consolidated statements requires the net exposure to be determined at group level.

Question 3 — Determining the net repricing risk exposure (7.2.5–7.2.10)

We agree with aggregation by repricing time bands based on expected repricing dates and with the principle of consistency with risk management decisions (7.2.9).

Concerns:

1. **"Reliably measurable" (7.2.6).** This term is used without further guidance. We recommend the IASB either delete it (the requirements in 7.2.9–7.2.10 already impose discipline) or explain what would cause a net exposure to fail the test, so that it is not read as a de facto prohibition on behaviouralised portfolios.
2. **Choice of measure (7.2.9(b), B7.2.13–B7.2.14).** We support allowing cash-flow- or fair-value-based measures. Many Indian entities quantify exposure using notional gap amounts per bucket (a cash-flow measure) rather than PV01. The Illustrative Examples are predominantly fair-value based; we request at least one full worked example using a notional-gap measure through to the RMA "lower of" test and the 7.4.13 present-value test.
3. **Frequency (7.2.10).** "Sufficient frequency" should be linked expressly to the entity's risk management cycle (e.g. monthly ALCO), with a statement that a reporting-date-only reassessment would not normally be sufficient where the entity manages risk more frequently.
4. **Time-band granularity.** Regulatory IRRBB templates prescribe specific buckets. The ED should confirm that using prescribed regulatory buckets is acceptable if that is how the entity manages risk, and that finer internal buckets are not required.

Question 4 — Designated derivatives (Section 7.3)

We agree that only external interest rate derivatives used under the risk management strategy should be eligible, and with the exclusion of net written options and derivatives dominated by other risks (7.3.2).

Suggestions:

1. **Cross-currency swaps.** Please clarify whether the interest-rate component of a cross-currency interest rate swap qualifies (see Q2 point 3).
2. **Proportional designation (7.3.7).** We support designating a proportion of the nominal. We ask the IASB to confirm that the proportion may be changed

prospectively when the risk mitigation objective is re-specified (7.4.4) without this being a "discontinuation".

3. **Exchange-traded interest rate futures** with daily settlement should be confirmed as eligible; the "cumulative gain or loss ... from the date the derivatives were designated" (7.4.8(a)) should be applied to the cumulative variation-margin flows.

4. **Derivatives used for both trading and banking-book risk management** (common where a single treasury desk executes both): the ED should confirm that the internal transfer of risk from the banking book to a trading desk does not create an eligible designated derivative, but that the external derivatives of the trading desk may be designated to the extent of the internal transfer (a "back-to-back" approach), consistent with the existing IFRS 9 Chapter 6 guidance on internal derivatives.

Question 5 — Risk mitigation objective and benchmark derivatives (7.4.1–7.4.7)

We agree with the concept of a risk mitigation objective capped at the net exposure per time band, and with benchmark derivatives constructed to replicate that objective.

Concerns:

1. **Under-hedging vs. over-hedging asymmetry.** The model only adjusts benchmark derivatives downward when unexpected changes *reduce* the net exposure (7.4.6). Where unexpected changes *increase* the exposure, no adjustment is made until a new objective is specified. We agree this is appropriate, but the ED should say so explicitly to avoid entities reading 7.4.7 as requiring an upward adjustment.

2. **Operational burden of 7.4.6–7.4.7.** Adjusting benchmark derivatives for unexpected changes each period effectively requires a re-run of the exposure model at each reporting date and a "tracking" of the difference. For entities with monthly ALCO cycles this may be manageable; for entities with quarterly cycles it may not. We suggest the IASB consider a practical expedient allowing entities to treat changes within a stated tolerance (documented under 7.1.7(e)) as expected changes.

3. **Evidence of objective (7.4.3).** "The actions an entity undertakes ... provide evidence" could be read to permit hindsight (defining the objective by reference

to the derivatives actually held). We suggest requiring the objective to be specified no later than the date the derivatives are designated.

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

We agree with the "lower of" approach in 7.4.8 and with recycling the RMA to profit or loss in the periods the repricing differences affect profit or loss (7.4.10).

Concerns:

1. **Presentation in profit or loss of the recycled amount.** The ED requires separate presentation (IFRS 7.30E(b)) but does not say whether the recycled RMA forms part of net interest income. Users and preparers of bank financial statements will expect it to be presented within net interest income (as the effective-yield adjustment it economically represents). We recommend the IASB state that the amount recognised under 7.4.10 is presented within interest revenue/expense with separate disclosure, rather than as a stand-alone line below net interest income.
2. **The 7.4.11–7.4.14 excess test.** The requirement to compare the RMA with the present value of the *entire* net repricing risk exposure at the reporting date (7.4.13) is potentially demanding. We ask the IASB to (a) confirm that the test is required only where an *indication* exists (a two-step approach akin to an impairment indicator test), and (b) clarify what "an indication" means with examples.
3. **Non-reversal of the excess (7.4.14).** We understand the rationale but note it creates an asymmetry with the "lower of" mechanism. If the net exposure subsequently increases, the previously written-off amount cannot be restored while designated-derivative gains continue to be measured cumulatively from designation. The ED should include an illustrative example showing the interaction of 7.4.8 and 7.4.14 over several periods.
4. **Ineffectiveness in profit or loss (7.4.9).** Please confirm the presentation line for amounts under 7.4.9 (we would expect "net gains/losses on financial instruments" rather than net interest income).

Question 7 — Discontinuation (Section 7.5)

We agree that discontinuation should be driven solely by a change in the risk management strategy, and with the treatment of the accumulated RMA in 7.5.3.

Suggestions:

1. The examples in 7.5.2 of a strategy change (change of mitigated rate; change of measure) are helpful. Please add examples of what is **not** a strategy change: change of risk limits within the same framework, change of ALCO frequency, changes of time-band granularity, or a benchmark rate transition mandated by regulators (e.g. discontinuation of a benchmark index). The last is particularly important — a regulator-driven change of the mitigated rate should not force discontinuation and re-designation.
2. Please confirm that a partial discontinuation (e.g. one currency subset) does not affect RMA for other subsets.

Question 8 — Effective date and withdrawal of IAS 39

Effective date: We agree that RMA should be available from the annual period beginning on or after issue, on a voluntary basis. Given the system changes required (exposure modelling, benchmark derivative construction, tracking of the RMA by time band), we suggest the IASB also provide an "early adoption permitted" statement and allow first application at the beginning of any annual period (not only the first period after issue), which the drafting of C1.17 appears already to intend.

Withdrawal of IAS 39: We support withdrawal **in principle**, provided the final RMA model can accommodate the portfolios currently hedged under IAS 39 portfolio fair value hedge accounting (including "bottom layer" approaches for prepayable assets and demand deposits). We recommend:

- a transition period of **not less than three full annual reporting periods** after issue of the final amendments before the IAS 39 requirements are withdrawn, to allow for system build, model validation and audit;
- withdrawal to be reconsidered only after post-implementation feedback from early adopters of RMA;
- confirmation that the IFRS 9 Chapter 6 fair value hedge of interest rate risk for a *portfolio* (IFRS 9.6.5.8(b)) is unaffected.

From the Indian perspective, we note that the corresponding Ind AS carry-over of the IAS 39 portfolio fair value hedge provisions would also need to be reviewed by the national standard-setter; adequate lead time is therefore important.

Question 9 — Transition (Section C2)

We agree with prospective application (C2(a)), with the option to revoke previous FVTPL designations (C2(b)) and with the IAS 8 paragraph 28(f) relief (C2(e)).

Suggestions:

1. **C2(c) — mandatory discontinuation of all IAS 39 hedging relationships on transition.** This should be limited to IAS 39 hedges of *interest rate risk that will be managed under RMA*. An entity transitioning from IAS 39 may have other IAS 39 hedges (e.g. FX cash flow hedges) which should be permitted to move to IFRS 9 Chapter 6 under the existing IFRS 9 transition provisions rather than being discontinued.
2. **C2(b) — revoking the fair value option.** The ED should clarify whether the difference between fair value and the amortised cost that would have applied is adjusted in opening retained earnings, and how the new effective interest rate is determined (we suggest the fair value at the date of revocation becomes the new gross carrying amount, consistent with IFRS 9.7.2.11).
3. **Cross-references to IAS 8.** The ED refers to IAS 8 as *Basis of Preparation of Financial Statements* (the title following IFRS 18). Jurisdictions that have not yet adopted IFRS 18 (including India) will need the reference to remain workable; we suggest the final amendments cite the paragraph number in a way that is robust to the renaming.

Question 10 — Disclosures (IFRS 7)

We agree with separate presentation of the RMA on the balance sheet and in profit or loss (30E), and with the objectives in 30F–30P.

Concerns:

1. **Paragraph 33A — disclosure by entities that choose not to apply RMA.** We are concerned that this effectively imposes a requirement on entities that have elected *not* to apply a voluntary model. Many entities already provide extensive IRRBB disclosure under prudential (Pillar 3) requirements. We suggest 33A either be deleted or be limited to a cross-reference to where the entity's regulatory IRRBB disclosures can be found.
2. **Volume of quantitative disclosure (30I–30N).** Disclosure of the net exposure and risk mitigation objective by time band could reveal proprietary positioning. We suggest permitting aggregation into a small number of broad maturity bands,

consistent with the confidentiality carve-outs already used in IFRS 7 for sensitivity analysis.

3. **Reconciliation of the RMA.** We support a roll-forward of the RMA (opening, additions, recycling, 7.4.14 excess, closing). Please include a tabular illustration in the Implementation Guidance.

4. **Interaction with IFRS 7.24A–24C** (hedge accounting disclosures) should be addressed so that entities applying both Chapter 6 and Chapter 7 do not duplicate.

Question 11 — Entities that issue insurance contracts

[Respondents that are not insurers may state that they have no comments. Insurers responding should describe their ALM approach against 7.1.1–7.1.2 and 7.1.4.]

From an Indian perspective we note that life insurers manage repricing risk arising from guaranteed products and participating funds through duration matching and, to a limited extent, forward rate agreements and swaps. Extending RMA to IFRS 17 liabilities would be welcome only if (a) the "mitigated rate" concept can accommodate liabilities discounted at IFRS 17 rates (risk-free plus illiquidity premium), and (b) the interaction with the IFRS 17 risk mitigation option for direct participating contracts (IFRS 17.B115–B118) is made clear.

Other matters

- **Drafting / translatability:** the terms "risk mitigation adjustment", "risk mitigation objective" and "risk mitigation accounting" are closely similar; consider using distinct labels (e.g. "net repricing adjustment") to aid clarity in translation.
- **Illustrative examples:** all examples assume readily observable swap curves in the mitigated rate. Examples for shallower markets, where the designated derivatives may be limited to overnight index swaps of shorter tenor than the exposure, would be helpful.
- **Extension to other sectors (IN19(c)):** we support exploring extension to energy and commodity businesses in a separate project, but recommend the IASB finalise the banking model first.

Yours faithfully,

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