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Comments on the Exposure Draft（ED/2025/1）
Risk Mitigation Accounting (Proposed amendments to IFRS 9 and IFRS 7)

1. The Accounting Standards Board of Japan ("the ASBJ" or "we") welcome the opportunity to provide our comments on the International Accounting Standards Board ("the IASB")'s Exposure Draft (ED/2025/1) *Risk Mitigation Accounting (Proposed amendments to IFRS 9 and IFRS 7)* ("the ED"), issued in December 2025.

2. We commend the IASB for its many years of diligent deliberations on the remarkably challenging topic of reflecting the entity's risk management activities in its financial statements, which has culminated in the publication of the ED. We agree with the objective of risk mitigating accounting to faithfully represent the entity's risk management activities in its financial statements and support the overall direction pursued by the IASB.

3. We understand that the ED reflects the IASB's efforts to address the wide range of practical concerns raised by stakeholders to date. However, we are of the view that the proposed approaches contain several issues that still require further consideration in order to achieve the objectives of the risk mitigation accounting project.

4. Accordingly, while we support the objectives and the fundamental direction of the risk mitigation accounting project, we believe that further refinement is necessary to finalise the standard. In this context, we are of the view that the IASB should explore solutions that better ensure the model's understandability, effectiveness and practical applicability.

5. Our overall comments on the ED are summarised in the following paragraphs.

(Departure from the *Conceptual Framework*)

6. Our understanding is that the IASB decided to depart from the *Conceptual Framework* and recognise the risk mitigation adjustment as an asset or liability to address the shortcomings identified through its outreach activities.

7. In this regard, we think that recognising gains and losses on derivatives in other comprehensive income ("OCI") would be straightforward. Nevertheless, if there is consensus amongst stakeholders that it is acceptable to depart from the *Conceptual Framework* and recognise risk mitigation adjustments as assets or liabilities, we do not object to this conclusion.

8. If the IASB were to proceed in this direction, we are of the view that, to enhance stakeholders' understanding, it would be necessary to provide a more detailed explanation (including the historical background) of the reasons for departing from the *Conceptual Framework* and recognising risk mitigation adjustments as assets or liabilities.

(The limitations of achieving two objectives with a single model)

9. The ED states that the purpose of the Risk Mitigation Accounting model ("RMA model") is to represent the economic effects of an entity's risk management activities with the following two objectives:

   (a) reducing the variability in cash flows; and

   (b) reducing the variability in fair value.

10. Generally speaking, (a) reducing the variability in cash flows, and (b) reducing the variability in fair value, are considered to be conflicting objectives. To address this conflict, our understanding is that IFRS 9 *Financial Instruments* prescribes two models (that is, fair value hedges and cash flow hedges).

11. However, the ED proposes a single model, namely the RMA model, to address what would normally be covered by two models. As a result, the ED encounters the following challenges in achieving the objective of reducing the volatility in fair value:

    (a) When the objective is to reduce the volatility of fair value for financial assets and liabilities measured at amortised cost, recognising fair value changes of the designated derivatives in OCI would result in a mismatch in equity because the

changes in the financial assets and liabilities would not be recognised in OCI. To avoid this situation, the ED proposes departing from the *Conceptual Framework* and recognising the risk mitigation adjustment as an asset or liability.

(b) When the objective is to reduce the volatility of fair value for financial assets measured at fair value through other comprehensive income ("FVOCI financial assets") or to mitigate other risks associated with such financial assets, recognising changes in the fair value of the designated derivatives in OCI would avoid creating a mismatch in equity and would faithfully represent the results of the entity's risk mitigation activities in its financial statements. However, the conclusion to depart from the *Conceptual Framework* and to recognise the risk mitigation adjustment as assets or liabilities would create a mismatch in equity. To avoid this mismatch, it would be necessary to apply fair value hedging under IFRS 9 to FVOCI financial assets before applying the RMA model and then include those FVOCI financial assets in the underlying portfolio.

12. The challenges described in the preceding paragraph indicate that the RMA model alone has inherent limitations. Accordingly, we think it is necessary to acknowledge that there are limits to achieving two objectives using a single model. Furthermore, we propose that the IASB state in the Basis for Conclusions that, to achieve the primary objective of the RMA model (namely, to faithfully represent the effects of the entity's repricing risk management activities in its financial statements), there are circumstances where it would be necessary to combine the RMA model with the general hedge accounting requirements in IFRS 9.

(Aggregation by repricing time band)

13. The ED proposes requiring an entity to determine the net repricing risk exposure by aggregating the repricing risk arising from underlying portfolios, using repricing time bands based on expected repricing dates. The ED also proposes requiring the number and length of repricing time bands to be consistent with those the entity uses for risk management purposes. Additionally, the ED proposes imposing a constraint (that is, a cap constraint) that the risk mitigation objective must not exceed the amount of net repricing risk exposure in any repricing time band (paragraphs 7.2.5, B7.2.12 and 7.4.1 of IFRS 9 in the ED).

14. In this regard, we received feedback from preparers (banks) in our jurisdiction stating that, under current practices, risk limits are determined for the entire duration of the portfolios in accordance with international regulations. These preparers expressed

concerns that a minor timing mismatch between the hedged item and the hedging instrument could lead to classifying the hedged item and the hedging instrument into different repricing time bands with the passage of time.

15. While such a minor timing mismatch is acceptable from a risk management perspective, the concerns are that this would result in over-hedging in certain repricing time bands by applying requirements in the RMA model. As a result, this would impair the objective of faithfully representing the entity's risk mitigation activities in its financial statements. Alternatively, the requirements may force the entity to change its risk mitigation activities to avoid over-hedging. However, we think it is undesirable for accounting standards to influence the entity's risk management activities in this manner.

16. Accordingly, from the perspective of faithfully reflecting the entity's risk management activities in its financial statements, we propose that mechanisms be introduced to allow flexibility to address such minor timing mismatches.

(Matters regarding core demand deposits)

17. Regarding the bottom layer of demand deposits (namely, core demand deposits), paragraph B7.2.2 of the ED states that "some deposits are not withdrawn, and customer balances are maintained for a long period. Therefore, on a portfolio basis, a portion of such deposits is deemed to represent fixed-rate financial liabilities and is eligible for inclusion in underlying portfolios".

18. On the other hand, regarding the refinancing of financial liabilities, paragraph B7.2.4 of the ED states that "for the purposes of applying risk mitigation accounting, this expected reinvestment or refinancing represents a variable-rate exposure". Additionally, in Example 24 of the ED, it is assumed that one-third of customer deposits in Portfolio FL2 would be withdrawn each year and thus the deposits are treated as a fixed-rate exposure for only a short period.

19. In this regard, we think that, based on the modelling approach adopted by the entity, demand deposits may be treated as long-term or perpetual fixed-rate exposures. Accordingly, we are of the view that it is necessary to clarify the relationship between the requirements in the standard and the illustrative examples. Furthermore, we think it would be beneficial to add an illustrative example in which core demand deposits are treated as long-term or perpetual fixed-rate exposures.

20. For our comments on the specific questions in the ED, please see the Appendix of this letter.

21. We hope our comments are helpful for the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,



Yasunobu Kawanishi
Chair
Accounting Standards Board of Japan

Appendix

Comments on Specific Questions in the ED

Our comments on the specific questions sought in the ED are 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.

(The limitations of achieving two objectives with a single model)

1. The ED states that the purpose of the RMA model is to represent the economic effects of an entity's risk management activities with the following two objectives:

   (a) reducing the variability in cash flows; and

   (b) reducing the variability in fair value.

2. Generally speaking, (a) reducing the variability in cash flows, and (b) reducing the variability in fair value, are considered to be conflicting objectives. To address this conflict, our understanding is that IFRS 9 prescribes two models (that is, fair value hedges and cash flow hedges).

3. However, the ED proposes a single model, namely the RMA model, to address what

would normally be covered by two models. As a result, the ED encounters the following challenges in achieving the objective of reducing the volatility in fair value:

(a) When the objective is to reduce the volatility of fair value for financial assets and liabilities measured at amortised cost, recognising fair value changes of the designated derivatives in OCI would result in a mismatch in equity because the changes in the financial assets and liabilities would not be recognised in OCI. To avoid this situation, the ED proposes departing from the *Conceptual Framework* and recognising the risk mitigation adjustment as an asset or liability.

(b) When the objective is to reduce the volatility of fair value for FVOCI financial assets or to mitigate other risks associated with such financial assets, recognising changes in the fair value of the designated derivatives in OCI would avoid creating a mismatch in equity and would faithfully represent the results of the entity's risk mitigation activities in its financial statements. However, the conclusion to depart from the *Conceptual Framework* and to recognise the risk mitigation adjustment as assets or liabilities would create a mismatch in equity. To avoid this mismatch, it would be necessary to apply fair value hedging under IFRS 9 to FVOCI financial assets before applying the RMA model and then include those FVOCI financial assets in the underlying portfolio.

4. The challenges described in the preceding paragraph indicate that the RMA model alone has inherent limitations. Accordingly, we think it is necessary to acknowledge that there are limits to achieving two objectives using a single model. Furthermore, we propose that the IASB state in the Basis for Conclusions that, to achieve the primary objective of the RMA model (namely, to faithfully represent the effects of the entity's repricing risk management activities in its financial statements), there are circumstances where it would be necessary to combine the RMA model with the general hedge accounting requirements in IFRS 9.

(The position of accounting mismatches)

5. Regarding the objective of the RMA model, paragraph BC13 of the ED states that "the IASB concluded that although applying risk mitigation accounting would result in the elimination of accounting mismatches, the primary objective of the proposed requirements is to faithfully reflect an entity's risk management activities in its financial statements to the extent possible". In other words, the primary objective of the proposed requirements in the ED would not appear to be the elimination of

accounting mismatches.

6. On the other hand, the basis for whether to include items in the core portfolio set out in paragraphs BC40 to BC50 of the ED focuses on eliminating or reducing mismatches in profit or loss. This appears to be inconsistent with the proposed objectives of the RMA model. These inconsistencies may give rise to issues regarding how to treat, for example, financial assets that are included in the entity's risk management activities but do not eliminate or reduce accounting mismatches.

7. In this regard, we agree with the ED's proposal that financial instruments which could cause new mismatches by deferring gains or losses arising from changes in the fair values of the designated derivatives should not be included in the underlying portfolio, because it would be difficult to connect individual financial assets and financial liabilities with the designated derivatives in the RMA model.

8. Furthermore, paragraph BC13 of the ED states that the primary objective of the RMA model is "to faithfully reflect an entity's risk management activities in its financial statements to the extent possible". Our understanding is that, the consideration 'to the extent possible', would include the elimination or reduction of accounting mismatches.

9. Accordingly, we propose that "the elimination or reduction of mismatches in profit or loss" is elevated to the second objective of the RMA model, and that this point be clarified in the standards.

（Requirements for the application of the RMA model）

10. The ED states that an entity is permitted to apply the RMA model only if it meets the following criteria (paragraph 7.1.4 of IFRS 9 in the ED).

> (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; and
>
> (c) the entity mitigates repricing risk arising from underlying portfolios on a net basis using derivatives in accordance with its risk management strategy.

11. The requirements for the application of the RMA model were discussed at the IASB

Board meeting in July 2024, leading to the following tentative decisions (Source: IASB Update July 2024). Our understanding is that the requirements have changed during the drafting process of the ED.

> The IASB tentatively decided that an entity would only be able to apply the DRM model if it:
>
> (a) has business activities that expose it to interest rate repricing risk arising from financial assets and financial liabilities;
>
> (b) adopts a dynamic risk management strategy with a dual objective that aims to mitigate the variability of both the net interest income and the economic value of equity, based on an aggregated (combined or net) repricing risk over a predetermined period;
>
> (c) uses a systematic process to determine the net repricing risk exposure based on a specified managed rate and frequently adjusts its risk mitigation activities; and
>
> (d) has free access to a liquid market that enables it to raise funding or invest excess cash at the prevailing benchmark interest rate.

12. In this regard, it appears that certain descriptions in the Basis for Conclusions concerning the requirements for the application of the RMA model are aligned with the requirements tentatively decided at the IASB Board meeting in July 2024. Specifically, paragraph BC24 of the ED relates to "business activities that expose it to interest rate repricing risk" shown in the preceding paragraph (a), and paragraphs BC29 to BC32 of the ED are likely to relate to "a systematic process to determine the net repricing risk exposure" shown in the preceding paragraph (c).

13. However, the requirements for the application of the RMA model have changed since the IASB Board meeting in July 2024, and there is a discrepancy between the requirements of paragraph 7.1.4 of IFRS 9 in the ED and the description in the Basis for Conclusions in the ED. As a result, we are of the view that the ED does not sufficiently explain the proposed requirements for the application of the RMA model. Accordingly, we propose that the description be revised to ensure consistency between the requirements for applying the RMA model and the Basis for Conclusions.

14. In addition, our understanding is that the RMA model is intended to ensure that the entity's dynamic risk management of open portfolios is better represented in the

entity's financial statements. However, it appears that the proposed requirements for the application of the RMA model do not require that the entity undertakes dynamic risk management of open portfolios. Furthermore, the requirements for the application of the RMA model, specifically paragraph 7.1.4 (c) of IFRS 9 in the ED (see paragraph 10(c) of this Appendix), uses the technical term 'underlying portfolio'. We think this concept is to be considered when an entity applies the RMA model, rather than a condition for an entity to apply the RMA model.

Accordingly, regarding the requirements for the application of the RMA model, we propose that the technical term (that is, "underlying portfolio") be removed and replaced with the requirement that the entity manages repricing risk arising from open portfolios on a net basis.

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.

(FVOCI financial assets)

15. The ED proposes that FVOCI financial assets are eligible for inclusion in the underlying portfolio. In this regard, paragraph BC45 of the ED states that "the accounting mismatches arise because fair value gains or losses on the financial assets are recognised in other comprehensive income (apart from the interest amount recognised in profit or loss using the effective interest method set out in paragraph 5.7.10 of IFRS 9), whereas the fair value gains or losses on the derivatives are recognised in profit or loss".

16. However, when the RMA model is applied to FVOCI financial assets, the OCI arising from these assets is recognised in equity, but the risk mitigation adjustment is recognised as assets or liabilities. As a result, a mismatch in OCI remains. Regarding this issue, the ED provides an illustrative example stating that, when the entity's risk management strategy is to mitigate the volatility in the fair value of FVOCI financial assets or to mitigate any other risks associated with those FVOCI financial assets, such FVOCI financial assets can be included in the underlying portfolio after applying the general hedge accounting in Chapter 6 of IFRS 9 (fair value hedges).

17. As stated in the preceding paragraph, to achieve the primary objective of the RMA model (namely, to faithfully represent the effects of the entity's repricing risk management activities in its financial statements), there are circumstances where it would be necessary to combine the RMA model with the general hedge accounting requirements in IFRS 9. The fact that this issue must be resolved by relying on general hedge accounting rather than purely within the RMA model highlights certain limitations of the RMA model alone.

18. The ED is insufficiently clear regarding the potential necessity to combine the RMA model with the general hedge accounting requirements in IFRS 9, as described in the preceding paragraph. Accordingly, we propose that the Basis for Conclusions clearly explain the approach for addressing OCI mismatches when applying the RMA model to FVOCI financial assets, along with the underlying rationale. In this context, the combination of this approach with the general hedge accounting requirements in IFRS 9 could be positioned from the perspective of achieving the primary objective of the RMA model, which is to faithfully represent the effects of

the entity's repricing risk management activities in its financial statements.

（Matters regarding core demand deposits）

19. Regarding the bottom layer of demand deposits (namely, core demand deposits), paragraph B7.2.2 of the ED states that "some deposits are not withdrawn, and customer balances are maintained for a long period. Therefore, on a portfolio basis, a portion of such deposits is deemed to represent fixed-rate financial liabilities and is eligible for inclusion in underlying portfolios".

20. On the other hand, regarding the refinancing of financial liabilities, paragraph B7.2.4 of the ED states that "for the purposes of applying risk mitigation accounting, this expected reinvestment or refinancing represents a variable-rate exposure". Additionally, in Example 24 of the ED, it is assumed that one-third of customer deposits in Portfolio FL2 would be withdrawn each year and thus the deposits are treated as a fixed-rate exposure for only a short period.

21. In this regard, we think that, based on the modelling approach adopted by the entity, demand deposits may be treated as long-term or perpetual fixed-rate exposures. Accordingly, we are of the view that it is necessary to clarify the relationship between the requirements in the standard and the illustrative examples. Furthermore, we think it would be beneficial to add an illustrative example in which core demand deposits are treated as long-term or perpetual fixed-rate exposures.

22. Additionally, our understanding is that demand deposits cannot be designated as eligible hedged items under existing IFRS accounting standards is because paragraph 47 of IFRS 13 *Fair Value Measurement* states that the fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

23. In this regard, we propose that, when finalising the RMA model by maintaining the proposals in the ED quoted in paragraph 19 of this Appendix without revising the requirements in IFRS 13 related to demand deposits, the IASB should consider whether this may cause any unintended consequences.

(Intercompany transaction)

24. Regarding intercompany transactions, we received the following feedback from preparers (banks) in our jurisdiction:

    (a) In practice, entities often manage risk at the group level, incorporating

intercompany transactions into their risk management strategies. Provided that the intercompany transactions are economically equivalent to transactions with external third parties, such as being linked to external exposures, such intercompany transactions should be eligible for inclusion in the underlying portfolios and/or designated derivatives.

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.

(Aggregation by repricing time band)

25. The ED proposes requiring an entity to determine the net repricing risk exposure by aggregating the repricing risk arising from underlying portfolios, using repricing time bands based on expected repricing dates. The ED also proposes requiring the number and length of repricing time bands to be consistent with those the entity uses for risk management purposes. Additionally, the ED proposes imposing a

constraint (that is, a cap constraint) that the risk mitigation objective must not exceed the amount of net repricing risk exposure in any repricing time band (paragraphs 7.2.5, B7.2.12 and 7.4.1 of IFRS 9 in the ED).

26. In this regard, we received feedback from preparers (banks) in our jurisdiction stating that, under current practices, risk limits are determined for the entire duration of the portfolios in accordance with international regulations. These preparers expressed concerns that a minor timing mismatch between the hedged item and the hedging instrument could lead to classifying the hedged item and the hedging instrument into different repricing time bands with the passage of time.

27. For example, consider a situation where the hedged item has a 9-year maturity and the hedging instrument is a derivative that has a 10-year maturity. Although they may be initially classified within the same repricing time bands (for example, 6–10 years), with the passage of time, the hedging instrument remains classified within its original repricing time band, whereas the hedged item would be reclassified into shorter-term repricing time bands (for example, 2–5 years). As a result, there could be circumstances where, for specific repricing time bands, over-hedging occurs due to the cap constraint imposed on each repricing time band.

28. While such a minor timing mismatch is acceptable from a risk management perspective, the concerns are that this would result in over-hedging in certain repricing time bands by applying requirements in the RMA model. As a result, this would impair the objective of faithfully representing the entity's risk mitigation activities in its financial statements. Alternatively, the requirements may force the entity to change its risk mitigation activities to avoid over-hedging. However, we think it is undesirable for accounting standards to influence the entity's risk management activities in this manner.

29. Accordingly, from the perspective of faithfully reflecting the entity's risk management activities in its financial statements, we propose that mechanisms be introduced to allow flexibility to address such minor timing mismatches.

(The scope of risk exposures to be considered when applying the RMA model)

30. The ED proposes requiring that the net repricing risk exposure be calculated in a manner that is consistent with how the entity makes risk management decisions. Additionally, the measure used to quantify net repricing risk exposure may include a cash flow-based measure (such as a repricing maturity gap measure) and/or a fair

value-based measure (such as a present value per basis point measure), and the ED proposes permitting the use of different measures for different repricing time bands. (paragraphs 7.2.9 and B7.2.13 to B7.2.14 of IFRS 9 in the ED)

31. Considering these proposals, we think it is unnecessary to measure both the variable-rate exposures and the fixed-rate exposures for each repricing time band. However, because the ED's illustrative examples only address cases where both variable-rate and fixed-rate exposures are measured, this may cause misunderstandings. Therefore, we propose that the aforementioned approach be further clarified in the accounting standards (including the application guidance) or in the Basis for Conclusions.

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.

32. We have no comments regarding this question.

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.

(Revision of Defined Terms)

33. We propose the following revisions to the defined terms proposed in the ED, because they are counterintuitive in relation to their intended meanings:

(a) Mitigated rate

The term "Mitigated rate" is defined as "a benchmark interest rate based on which an entity manages repricing risk in accordance with its risk management strategy". However, we think this term is inappropriate because it suggests that the interest rate itself is being mitigated, rather than being the benchmark rate used for risk management. Accordingly, we propose using a term that better accurately reflects the concept of a "benchmark" (for example, 'referencing benchmark rate').

(b) Risk mitigation objective

This term is similar to the "risk management objective" used in the existing IFRS 9. In paragraph B6.5.24 of IFRS 9, the risk management objective relates to "how the particular hedging instrument that has been designated is used to hedge the particular exposure that has been designated as the hedged item". The risk management objective is recognised as being qualitative (non-quantitative) in nature.

However, our understanding is that the "risk mitigation objective" is quantitative in nature because it is defined as "an absolute amount of repricing risk an entity intends to mitigate in accordance with its risk management strategy". Accordingly, we recommend avoiding the term "objective" in this context and that an alternative term that better reflects its quantitative nature (for example,

'risk mitigation target') be used.

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.

(Departure from the *Conceptual Framework*)

34. The ED proposes departing from the *Conceptual Framework* and recognising risk mitigation adjustments as assets or liabilities separately from other assets and liabilities.

35. Paragraph SP1.3 of the IASB's *Conceptual Framework* states that "To meet the objective of general purpose financial reporting, the Board may sometimes specify

requirements that depart from aspects of the *Conceptual Framework*. If the Board does so, it will explain the departure in the Basis for Conclusions on that Standard".

36. Although the Basis for the Conclusion includes an explanation of the departure in accordance with the provision cited in the preceding paragraph, the descriptions in paragraph BC92 of the ED are very brief. Paragraph BC92 of the ED states:

> (a) the alternative to recognising the risk mitigation adjustment in the statement of financial position would be recognising volatile gains or losses in other comprehensive income. This approach would not faithfully represent the economic phenomenon of risk management activities. Furthermore, it would be the result of mixed accounting measurement requirements and, therefore, would provide less useful information for users of financial statements than the proposed approach.
>
> (b) the scope of the departure would be limited to specific risk management strategies and activities (see paragraph 7.1.4 of the Exposure Draft).

37. During the development of the RMA model, the IASB developed a DRM core model based on the mechanics of cash flow hedge accounting, which would recognise the risk mitigation adjustment in OCI. Had the DRM core model been adopted, there would have been no need to depart from the *Conceptual Framework*.

38. However, our understanding is that, during the outreach related to the DRM core model, concerns were raised regarding the effects of recognising risk mitigation adjustments in OCI on regulatory capital and equity reported in IFRS financial statements, as well as the volatility of those amounts. (See AP4A for discussion at the May 2022 IASB Board meeting.)

39. In addition, some noted that, because OCI provides information about an entity's financial performance rather than its financial position, it could not reflect the effects on financial position resulting from the reduction of economic value volatility achieved through dynamic risk management. It was also noted that such recognition would affect equity in a manner that does not faithfully represent the economic phenomenon of dynamic risk management. (See AP4A for discussion at the May 2022 IASB Board meeting)

40. Our understanding is that the IASB decided to depart from the Conceptual Framework and recognise the risk mitigation adjustment as an asset or liability to

address the shortcomings.

41. Our understanding is that the proposal in the ED reflects the shortcoming that recognising risk mitigation adjustments in OCI would affect equity in a manner that does not faithfully represent the economic phenomena of dynamic risk management. The following table summarises the impact on equity if risk mitigation adjustments were to be recognised in OCI in:

	(A) To reduce the volatility in cash flows	(B) To reduce the volatility in fair value
(1) Financial assets/ liabilities classified measured at amortised cost	(A-1) The result is the same as when using the cash flow hedge accounting model under IFRS 9.	(B-1) Changes in financial assets and liabilities will not give rise to OCI, but changes in the designated derivatives will, causing a mismatch in equity.
(2) FVOCI financial assets	(A-2) The result is the same as when using the cash flow hedge accounting model under IFRS 9.	(B-2) OCI arising from financial assets and OCI arising from the designated derivatives offset each other and thus no mismatch occurs in equity.

42. Cells (A-1) and (A-2) in the table in the preceding paragraph describe an approach where gains or losses arising from derivatives used as hedging instruments are deferred in OCI to address the accounting mismatch, with the objective of reducing the volatility in cash flows. Because this accounting treatment results in the same outcome as cash flow hedge accounting, rejecting this treatment could be seen as questioning the accounting treatment for cash flow hedges under IFRS 9.

43. With respect to Cell (B-1) in the table in paragraph 41 of this Appendix, when derivatives are used to reduce the volatility in economic value (fair value), the combined accounting measurement requirements result in no OCI arising from financial assets or liabilities, whereas OCI arises from the designated derivatives. As a result, this causes a mismatch in equity.

44. With respect to Cell (B-2) in the table in paragraph 41 of this Appendix, because OCI arising from financial assets is offset by OCI arising from the designated derivatives,

there will be no mismatch in equity. Rather, recognising the risk mitigation adjustment as assets or liabilities would cause a mismatch in equity. We are of the view that, in order to avoid the mismatch in equity, there is no alternative but to apply fair value hedge accounting under IFRS 9 to the FVOCI financial assets, and subsequently include these FVOCI financial assets in the underlying portfolio.

45. Based on the above analyses, the effect on equity resulting from recognising risk mitigation adjustments in OCI in a manner that does not faithfully reflect the economic phenomenon of dynamic risk management is limited to the case described in Cell (B-1) in the table in paragraph 41 of this Appendix. We think that recognising gains and losses on derivatives in OCI would be straightforward.

46. Nevertheless, if there is consensus amongst stakeholders that it is acceptable to depart from the *Conceptual Framework* and recognise risk mitigation adjustments as assets or liabilities, we do not object to this conclusion.

47. If the IASB were to proceed in this direction, we are of the view that, to enhance stakeholders' understanding, it would be necessary to provide a more detailed explanation (including the historical background) of the reasons for departing from the *Conceptual Framework* and recognising risk mitigation adjustments as assets or liabilities.

(Granularity for "Lower of" test)

48. The risk mitigation adjustment is measured at the lower of the following (in absolute amounts) (hereafter referred to as the "'lower of' test") and recognised in the statement of financial position (paragraph 7.4.8 of IFRS 9 in the ED):

    (a) the cumulative gain or loss on the designated derivatives from the date the derivatives were designated; and

    (b) the cumulative change in the fair value (present value) of the benchmark derivatives.

49. In this regard, the ED proposed requiring that the net repricing risk exposure and the risk mitigation objective be calculated for each repricing time band (paragraphs 7.2.5 and 7.4.1 of IFRS 9 in the ED). In contrast, our understanding is that the 'lower of' test for the risk mitigation adjustment is to be assessed over the entire mitigated time

horizon [1]. In this context, the ED does not specify the unit of evaluation (granularity) for the 'lower of' test.

50. Accordingly, we recommend that the IASB clarify the granularity of the 'lower of' test for the risk mitigation adjustments.

(Accounting for derivatives that were excluded from designated derivatives or derecognised)

51. The ED does not address the accounting treatment when derivative is excluded from the designated derivatives in accordance with paragraph 7.3.8 of IFRS 9, or where the derecognition of a designated derivative occurs. Accordingly, we recommend that the IASB clarify the accounting treatment for the cumulative changes in fair value for the period the derivative was designated.

(The relationship between the assessment of risk mitigation adjustment excess and adjustments to the benchmark derivatives)

52. The ED proposes that, when unexpected changes in financial instruments included in the underlying portfolios result in the net repricing risk exposure falling below the risk mitigation objective specified at the beginning of the period, the benchmark derivatives be adjusted to reflect the effects of those changes. As a result, the exposure to repricing risk represented by the benchmark derivatives would not exceed the net repricing risk exposure in any repricing time band (paragraphs 7.4.6 and 7.4.7 of IFRS 9 in the ED).

53. On the other hand, when there are indications that the risk mitigation adjustment may not be fully realised over the mitigation period, the ED proposes that an entity compare (a) the risk mitigation adjustment with (b) the present value of the net repricing risk exposure at the reporting date and, if the risk mitigation adjustment exceeds that present value, the entity immediately recognises the excess amount in profit or loss (paragraphs 7.4.11–7.4.14 of IFRS 9 in the ED).

54. In this regard, our understanding is that, when the risk mitigation adjustment is unlikely to be realised in full, it is likely that the net repricing risk exposure decreases to a level below the original risk mitigation objective. In such cases, we

[1] See AP6 for discussion at the July 2026 ASAF meeting.
https://www.ifrs.org/content/dam/ifrs/meetings/2026/july/asaf/ap6-preliminary-feedback-proposals-in-exposure-draft.pdf

think adjustments to the benchmark derivative would be made in accordance with the requirements in paragraphs 7.4.6 and 7.4.7 of IFRS 9 in the ED, and thus the decrease in the net repricing risk exposure for each repricing time band will be reflected in the outstanding amount of the risk mitigation adjustment in a timely manner.

55. Consequently, because it is not clear in which circumstances it would be necessary to assess the excess of the risk mitigation adjustment (the 'excess test') either after appropriately adjusting the benchmark derivative or without requiring any such adjustment, we question the necessity of the excess test. If the IASB maintains the requirement for this assessment, we propose that it more clearly specify the circumstances in which, despite the benchmark derivative having been appropriately adjusted, the risk mitigation adjustment might not be realised in full.

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.

56. We have no comments regarding this question.

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?

57. We have no comments regarding this question.

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.

(Transition for treating existing derivatives as the designated derivatives upon initial application)

58. When an entity manages interest rate risk dynamically, it is expected that, at the time of initial application of the RMA model, there will be a large number of existing derivatives with fair values that are not zero. In this regard, the ED proposes that the benchmark derivatives be constructed initially with a fair value of zero. As a result, at the date of transition to the RMA model, significant mismatches may arise between the fair value of the designated derivatives and that of the benchmark derivatives and, therefore, this could lead to unintended consequences. Accordingly, we recommend that the IASB introduce transition provisions to facilitate a smooth implementation of the RMA model.

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.

(General matters)

59. Regarding the disclosure requirements proposed in the ED, we received the following feedback from preparers (banks) in our jurisdiction:

    (a) The usefulness of the proposed disclosure requirements is questionable because some of the requirements are already disclosed outside the entity's financial statements as risk management information in accordance with international regulations.

    (b) There are concerns that certain newly proposed disclosures would force entities to disclose commercially sensitive information.

(Disclosure requirements for entities that choose not to apply the RMA model)

60. We received mixed feedback from users and preparers in our jurisdiction regarding the disclosure requirements (paragraph 33A of IFRS 7 in the ED) for entities that choose not to apply the RMA model. Such feedback can be summarised as follows:

Feedback from users

(a) The requirement for entities that undertake dynamic interest rate risk management (primarily financial institutions such as banks and insurance companies) to provide qualitative disclosures regarding such risk is considered to be useful for users of financial statements.

Feedback from preparers

(b) Although the RMA model is optional, requiring disclosures for entities that do not apply the model would be excessive.

61. Additionally, we are of the view that requiring disclosures for entities that do not apply the RMA model would effectively necessitate all entities applying IFRS accounting standards to assess whether they meet the requirements for the application of the RMA model set out in paragraph 7.1.4 of IFRS 9 in the ED.

62. In this regard, we have received feedback from preparers (specifically insurance companies) in our jurisdiction stating that it would be difficult to determine whether they meet the criteria for the application of the RMA model, because the ED is intended for European financial institutions (primarily banks) and uses terminology specific to such institutions. These preparers expressed their concerns that there was uncertainty as to whether they would be subject to the disclosures that would be required for entities that choose not to apply the RMA model.

63. On this point, the IASB states in paragraph BC14 of the ED that one of the reasons the RMA model was made optional is that 'the IASB noted that requiring entities to apply risk mitigation accounting would mean defining and describing specific risk management strategies and activities that would trigger its application'.

64. Accordingly, if the IASB decides to maintain its proposed disclosure requirements for entities that choose not to apply the RMA model, we recommend the IASB to define the scope of entities that would be subject to disclosures with greater clarity and specificity.

(Presentation of risk mitigation adjustments)

65. Risk mitigation adjustments are to be recognised as assets when they result in debit balances and as liabilities when they result in credit balances (paragraph 30D of IFRS 7 in the ED).

66. In this regard, the ED is not clear as to whether risk mitigation adjustments are to be presented on a gross or net basis when an entity or group of entities (including those applying the RMA model at the company level) applies the RMA model to two or more different underlying portfolios with some portfolios resulting in debit balances and other portfolios resulting in credit balances. Accordingly, we propose that this point be explicitly clarified in the accounting standard.

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.

67. Our understanding is that contracts within the scope of IFRS 17 (excluding those to which IFRS 9 applies in accordance with paragraph 2.1(e) of IFRS 9) are not classified in accordance with IFRS 9 and thus are not eligible for inclusion in the underlying portfolio.

68. Nevertheless, in the following paragraphs, we describe the primary feedback received from stakeholders in our jurisdiction regarding the implications of assuming that insurance contract assets and liabilities accounted for in accordance with IFRS 17 would be eligible for inclusion in the underlying portfolio, as requested in this question.

(Matters regarding risk management and activities at the company that issues insurance contracts)

69. Regarding matters relating to risk management and activities for an entity that issues insurance contracts, we received the following feedback from stakeholders in our jurisdiction:

    (a) If insurance contract assets and liabilities are eligible for inclusion in the underlying portfolio, insurance companies in our jurisdiction are likely to meet the requirements set out in paragraph 7.1.4 of IFRS 9 in the ED.

    (b) Insurance companies not only use derivatives but also manage their asset-liability duration matching by rebalancing financial assets (that is, the sale and/or reinvestment of financial assets). Accordingly, from the perspective of accurately reflecting the insurer's risk management activities in the financial statements, the approach proposed in the ED, which is based on the use of derivatives, may be insufficient.

    (c) As the proposals in the ED are primarily intended for European financial institutions (mainly European banks) and use terminology that is primarily used by banks, it is difficult to appropriately assess whether the model aligns with the risk management activities of insurance companies and to determine whether the RMA model can be applied. Accordingly, it is necessary to clarify and specify the terminology regarding the RMA model from the perspective of entities other than European financial institutions (mainly European banks).

(Matters relating to the application of the RMA model)

70. Regarding the effects of applying the RMA model to insurers, we received the following feedback from stakeholders in our jurisdiction:

    (a) In our jurisdiction, there are insurance companies that hold significant amounts of FVOCI financial assets and have elected to recognise changes in the time value of money regarding insurance contract assets and liabilities in OCI. In

such circumstances, there are concerns with applying the proposals in the ED because the requirements would cause accounting mismatches.

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