IFRS Accounting

Staff paper

Agenda reference: 4

IASB® meeting

Date	**October 2024**
Project	**Dynamic Risk Management**
Topic	**Cover note**

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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

Purpose of this meeting

1. At this month's meeting, the staff will present the following agenda papers:

   (a) Agenda Paper 4A *Transition requirements and consequential amendments to IFRS Accounting Standards*; and

   (b) Agenda Paper 4B *Due process and permission to begin the balloting process*

2. In Agenda Paper 4A, we discuss and ask the IASB for tentative decisions on the transition requirements for the initial application of the DRM model, and on some of the potential consequential amendments to IFRS Accounting Standards as direct consequences of the applicable requirements of the DRM model.

3. In Agenda Paper 4B, we explain the steps in the IFRS Foundation Due Process Handbook that the IASB has taken in developing the proposed amendments in the forthcoming Exposure Draft for the DRM model, and propose a comment period of 240 days. We also seek the IASB's permission to begin the process for balloting the forthcoming Exposure Draft and enquire if any IASB member intends to dissent from the proposals.

Summary of tentative decisions and glossary of defined terms

4. For reference purposes, we have also included in Appendix A of this cover note a summary of tentative decisions taken by the IASB to date that are applicable to the current DRM model, and a glossary of defined terms in Appendix B. We do not ask for a decision from the IASB on these two appendices.

Appendix A—Summary of tentative decisions

1. This appendix summarises the IASB's tentative decisions to date and areas identified for further deliberation relating to:

   (a) Objective and scope of the DRM model;

   (b) Current net open risk position;

   (c) Designated derivatives;

   (d) Qualifying criteria for the DRM model;

   (e) Accounting for the DRM model; and

   (f) Presentation and disclosure

2. Appendix B contains a glossary of defined terms.

Objective and scope of the DRM Model

3. Agenda Paper 4A for the May 2022 IASB meeting, describes the objective of the DRM model as 'to better reflect an entity's dynamic risk management strategies and activities in the financial statements'. The application of the DRM model should provide useful information to enable users of financial statements to understand:

   (a) the entity's risk management strategy and how that strategy is applied to dynamically manage repricing risk due to changes in interest rates;

   (b) how the entity's application of dynamic risk management may affect the nature, timing and uncertainty of future cash flows; and

   (c) the effect that dynamic risk management has had on the entity's financial position and financial performance.

4. This is consistent with the objective of general purpose financial reporting as stated in paragraph 1.2 of the *Conceptual Framework for Financial Reporting* (Conceptual Framework), which is to provide financial information about the reporting entity that

is useful to existing and potential investors and creditors (primary users of the financial statements) in making decisions.

5. For the purposes of developing the DRM model, the IASB initially decided to focus first on how banks manage repricing risk. However, the IFRS Accounting Standards are not developed for specific types of entities or industries, but rather for specific types of transactions, rights and obligations or income and expenses.

6. In its July 2024 meeting, the IASB considered the types of business and risk management activities that are applicable for the DRM model and 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.

7. In its July 2024 meeting, the IASB also tentatively decided to include a specific question for insurers in the prospective DRM exposure draft to collect more information about their risk management strategies and activities.

8. In its July 2019 meeting, the IASB tentatively decided that the application of the DRM model should be optional. In its July 2024 meeting, the IASB redeliberated whether the optional application of the DRM model remains appropriate following the tentative decisions taken to further develop the DRM requirements since July 2019,

for entities with applicable risk management activities. The IASB tentatively decided to keep the application of the DRM model optional for such entities.

Current net open risk position

9. In November 2021, the IASB tentatively agreed to introduce the concept of a current net open risk position (CNOP) being the net open interest rate risk position (by time bucket) derived from the combination of an entity's financial assets and financial liabilities (including core demand deposits) over the period the entity is managing such risk.[1]

10. To determine the CNOP, financial assets and financial liabilities are aggregated, consistent with how entities monitor and manage the net interest rate risk from their financial assets and financial liabilities holistically. In other words, this is the 'organic' interest rate risk position of the entity before considering any instruments that are being used for mitigation of repricing risk due to changes in intertest rates (ie designated derivatives).

11. When an entity aggregates the risk from its underlying financial assets and financial liabilities as part of the dynamic risk management process, it is common to manage all positions against changes in a particular benchmark interest rate, for example the entity's internal interest transfer pricing or funding rate. For the purposes of the DRM model, this is referred to as the managed risk.

12. Financial assets and financial liabilities are included in the CNOP and allocated to time buckets based on either expected repricing dates or on a contractual basis. Therefore, entities may need to consider the effect of prepayments and/or cash flow modelling of core demand deposits (ie 'behavioural' models may be used to determine

[1] In this context, a time bucket refers to a repricing time period (eg 1 year, from 1 January 20X1 to 31 December 20X1) during which repricing risk (due to changes in interest rates) from underlying financial assets and financial liabilities are managed.

the deemed fixed interest rate risk of items such as core demand deposits and prepayable loans).

Qualifying items for determining the current net open risk position

13. The IASB tentatively decided that the qualifying criteria for determining the CNOP are:

    (a) financial assets are measured at amortised cost or fair value through other comprehensive income (FVOCI) and financial liabilities are measured at amortised cost in accordance with IFRS 9 *Financial Instruments*[2];

    (b) the effect of credit risk does not dominate the changes in expected future cash flows;

    (c) future transactions that are the reinvestment or refinancing of existing financial assets or financial liabilities at the prevailing market interest are expected to occur, and all other future transactions (eg forecast transactions and firm commitments) are highly probable [3];

    (d) future transactions result in financial assets that are subsequently measured at amortised cost or FVOCI and financial liabilities that are subsequently measured at amortised cost in accordance with IFRS 9;

    (e) items already designated in a hedge accounting relationship do not qualify for designation in the DRM model, however, hedged exposure—that is the combination of the hedged items and the hedging instruments that are designated in a hedge accounting relationship when applying IFRS 9—is

[2] Financial assets measured at FVOCI have the same exposure to variability in future net interest income and fair value changes due to interest rate risk, as financial assets measured at amortised cost, see Agenda Paper 4A of the February 2023 IASB meeting.

[3] Regarding growth, the IASB tentatively agreed an entity may choose to designate growth as a future transaction. The IASB had previously made a tentative decision that *all* future transactions included in the CNOP must be highly probable, however redeliberated and revised this decision in April 2023. Please see Agenda Paper 4C of that meeting.

permitted to be included if doing so is consistent with the entity's risk management strategy; and

(f) qualifying items are managed on a portfolio basis for interest rate risk management purposes.

14. In its November 2022 meeting, the IASB tentatively decided that when determining an entity's CNOP, an entity's own equity instruments do not qualify for inclusion in the CNOP.

15. The IASB also tentatively decided that financial assets or financial liabilities that are subsequently measured or designated at fair value through profit or loss do not qualify to be designated in the DRM model (ie cannot be included in CNOP).

16. Regarding core demand deposits, the IASB tentatively decided that the DRM model allows the inclusion of core demand deposits in the CNOP, based on an entity's risk management strategy, provided those deposits:

(a) have a demand feature; and

(b) will not reprice with a change in market interest rates and the entity is not contractually obliged to change the interest rate when the market interest rates change.

17. The notional amount of a demand deposit being treated as core and its associated tenor must be based on reasonable and supportable information.

18. In its July 2023 meeting, as outlined in Agenda paper 4B, the IASB tentative decided that an entity is permitted to include hedged exposures in a current net open risk position if doing so is consistent with the entity's risk management strategy. In the DRM model, 'hedged exposures' refers to the combination of the hedged items and the hedging instruments that are designated in a hedge accounting relationship when applying IFRS 9.

Designation of qualifying items in the DRM model

Designation on a portfolio basis

19. As summarised in Agenda Paper 4A for the April 2019 meeting, the IASB tentatively agreed that financial assets, financial liabilities and future transactions dynamically managed for interest rate risk and meeting the qualifying criteria should be designated on a portfolio basis in the DRM model.

20. The IASB also tentatively agreed that portfolios should be defined consistently with the entity's risk management policies and procedures.

21. The application of the DRM model should take effect from the date an entity has completed the necessary documentation to designate a specific portfolio. See tentative decisions relating to documentation in paragraphs 49 and 50 of this appendix.

Designation and the dynamic nature of portfolios

22. As summarised in Agenda Paper 4A for the April 2019 meeting, the IASB tentatively agreed that an entity should have a choice to designate future transactions to be part of the DRM model, provided such designation is consistent with the entity's risk management strategy. Please see paragraph 13 of this appendix for the IASB's tentative decisions on the qualifying criteria for future transactions.

23. In addition, the IASB also tentatively agreed that changes to the designated portfolios (ie changes in composition of CNOP) resulting in updates to the DRM model should not result in discontinuation of the existing relationship.

Notional alignment between designated financial assets and financial liabilities

24. In its November 2022 meeting, the IASB tentatively decided that in determining an entity's current net open risk position, notional alignment is not required between the qualifying financial assets and financial liabilities that are designated in the DRM model.

De-designation of qualifying items

25. As summarised in the Agenda Paper 4A for the April 2019 meeting, the IASB expressed preliminary views not to allow voluntary de-designation of financial asset portfolios or financial liability portfolios within the DRM model when the risk management objective remains the same and the financial assets or financial liabilities in their respective portfolios continue to meet the qualifying criteria. In its September 2024 meeting, the IASB redeliberated this tentative decision and concluded that unless an entity changes its risk management strategy, it is not permitted to remove underlying items included in determining its CNOP when those items continue to meet the qualifying criteria.

26. In addition, the IASB also tentatively agreed that financial assets, financial liabilities and future transactions should be de-designated when they no longer meet the qualifying criteria or when they are derecognised from the statement of financial position in accordance with the requirements of IFRS 9.

Designated derivatives

Qualifying derivatives

27. As summarised in the Agenda Paper 4A for the April 2019 meeting, the IASB tentatively decided to address interest rate swaps, including basis swaps and forward start swaps, and forward rate agreements first, as these capture a significant portion of the DRM risk mitigation instruments.

28. With respect to internal derivatives, the IASB tentatively decided that only contracts with a party external to the reporting entity (ie external to the group or the individual entity that is being reported on) can be designated within the DRM model.

29. In its July 2023 meeting, as outlined in Agenda paper 4C, the IASB tentatively decided that non-linear derivatives, except for net written options, are eligible to be

designated derivatives when their use is consistent with an entity's risk management strategy.

30. In the same meeting the IASB confirmed that off-market derivatives (derivatives that have a non-zero fair value on initial designation) are eligible to be designated derivatives when their use is consistent with an entity's risk management strategy. However, only the fair value changes that arise after the date of initial designation are considered when measuring the DRM adjustment.

Designation and de-designation of derivatives

31. As summarised in the Agenda Paper 4A for the April 2019 meeting, regarding designation and de-designation of derivatives, the IASB tentatively decided that formal designation is required and should occur when the entity completes the necessary documentation requirements, as detailed in paragraphs 49 and 50 of this appendix. While designation can occur on an individual or group basis, an entity must demonstrate sufficient specificity to enable performance assessment (see paragraphs 53 – 56 of this appendix for the performance assessment).

32. In addition, the IASB tentatively decided that the DRM model should not allow voluntary de-designation of a derivative unless an entity changes its risk management strategy..

33. The IASB tentatively decided that the DRM model should allow the designation of a proportion of the notional amount of a derivative, such as a percentage of its notional amount, however, a designated derivative cannot be designated for a part of its change in fair value that results from only a portion of the time period during which the designated derivative remains outstanding.

Qualifying criteria for the DRM model

Risk management strategy

34. Although the IASB has not defined the risk management strategy, it should be noted that paragraph B6.5.24 of IFRS 9 states that:

> …The risk management strategy is established at the highest level at which an entity determines how it manages its risk. Risk management strategies typically identify the risks to which the entity is exposed and set out how the entity responds to them. A risk management strategy is typically in place for a longer period and may include some flexibility to react to changes in circumstances that occur while that strategy is in place (for example, different interest rate or commodity price levels that result in a different extent of hedging). This is normally set out in a general document that is cascaded down through an entity through policies containing more specific guidelines…a risk management strategy can involve many different hedging relationships whose risk management objectives relate to executing that overall risk management strategy…

Target profile

35. As detailed in Agenda Paper 4A for the November 2021 IASB meeting, the IASB tentatively decided that the target profile (ie risk limits) is required to be directly linked to the entity's documented risk management strategy. In other words, it is not merely an accounting concept. When entities assess repricing risks across different time buckets when applying the DRM model, these time buckets need to be consistent with the entity's risk management strategy and the characteristics of the underlying risk positions (ie consistent with how the entity aggregates and manages risk).

36. The specification and documentation of the target profile, as one of the qualifying criteria to apply the DRM model, should be done at inception of the model. However,

a change in the target profile does not necessarily lead to a change in the entity's risk management strategy.

Risk mitigation intention

37. In November 2021, the IASB introduced the risk mitigation intention as a single-outcome element to the DRM model, representing the extent of risk to be mitigated through the use of derivatives, ie the portion of the current net open risk position the entity intends to mitigate through the use of derivatives. It is measured and represented by the benchmark derivatives and evidenced by the designated derivatives.

38. As detailed in Agenda Paper 4B for the February 2022 meeting, the risk mitigation intention in the DRM model is calculated as follows:

    Step 1—qualifying portfolios of (expected) cash flows from financial assets, financial liabilities, and future transactions are designated in the DRM model;[4]

    Step 2—the CNOP is determined as the net interest rate risk position of the designated portfolios, for example, by allocating (expected) cash flows across repricing time period and determining the risk by repricing time period arising from the aggregated position; and

    Step 3—the entity determines the extent to which it wants to mitigate the interest rate risk in the CNOP, consistent with its risk management strategy, being the RMI. The RMI is evidenced by the designated derivatives traded with external counterparties and can change from one DRM assessment period to the next.[5]

[4] Consistent with the IASB's tentative decisions in February and April 2018, future transactions such as forecast transactions and firm commitments that are highly probable to occur and meet certain qualifying criteria can be designated in the DRM model.

[5] The DRM assessment period may be different to the reporting period.

39. In November 2021, the IASB also tentatively decided *not* to allow an entity to designate a portion of a portfolio of prepayable financial assets. This is because the risk mitigation intention would enable an entity to decide the extent of the CNOP to mitigate by using derivatives within the target profile. Such a decision—ie how much of the risk exposure to mitigate—could be driven by many factors, including an entity's current expectations of prepayment levels or other risk management factors, but it must be consistent with the entity's risk management strategy and activities.

40. In its July 2019 meeting, the IASB tentatively decided that aggregation of the benchmark derivatives would be permitted if the maturity dates, payment dates and interest rate basis are the same.

41. In its April 2023 meeting, as outlined in Agenda Paper 4B, the IASB discussed the proposed requirements for determining the RMI, specifically considering how an entity would define managed risk and construct benchmark derivatives. The IASB tentatively decided that:

    (a) the managed risk is the specified interest rate risk an entity manages consistent with its risk management strategy, and it is therefore the risk that an entity's risk limits are based on; and

    (b) the benchmark derivative is calibrated to current market rates of the managed risk to achieve a fair value of zero based on the RMI by time bucket.

42. In the same April 2023 meeting, the IASB also reconsidered and reconfirmed two tentative decisions from previous meetings:

    (a) the RMI is evidenced by the actual amount of interest rate risk, by time bucket, transferred to a party external to the reporting entity (for example, external to the group or individual entity that is being reported on); and

    (b) the time buckets of the available risk to mitigate are aligned with an entity's risk management strategy.

43. As detailed in Agenda Paper 4A for the November 2021 IASB meeting, the IASB tentatively decided that the determination of the risk mitigation intention is subject to

specified restrictions. An entity applying the DRM model needs to apply both prospective and retrospective assessments to be able to apply the DRM model. The prospective assessments need to be satisfied at the time the risk mitigation intention is determined (ie the beginning of the DRM assessment period), supplemented by the retrospective assessment at the end of each assessment period.

44. The risk mitigation intention needs to be evidenced by an entity's actions taken to mitigate risk (eg the actual derivatives traded in the market). Once it is determined, it would be documented via the construction of the benchmark derivatives, and entities will not be able to amend the risk mitigation intention retrospectively.

Prospective assessments

45. The prospective assessments are performed at the start of each DRM assessment period, and thus are based on all reasonable and supportable information available at that time. The aim of the prospective assessments is to ensure that the entity only applies the DRM model to activities that achieve its risk management strategy. In its November 2021 meeting, the IASB decided that:

    (a) the cumulative amount of risk to be mitigated through derivatives must reduce the interest rate risk of the current net open risk position by time bucket and cannot exceed the total amount of risk by time bucket (ie an entity cannot over mitigate its current net open risk position); and

    (b) the risk mitigation intention has to transform the current net open risk position to a residual risk position that is within the target profile.

46. As a result of the prospective assessment requirements, when an entity is determining its risk mitigation intention, it is restricted by the following considerations:

    (a) the maximum amount of risk mitigation intention is capped at the current net open risk position, and this maximum amount is not affected by the entity's target profile (ie risk limits) determined at the inception of the entity's DRM model; consistent with how entities monitor and manage their current net open risk position; and

(b) the risk mitigation intention needs to transform the current net open risk position to a residual risk position that is within the target profile—this requirement establishes the minimum amount that an entity needs to determine as risk mitigation intention to be consistent with its risk management strategy.

Retrospective assessment

47. In addition to the prospective assessments, in the same meeting in November 2021, the IASB also tentatively decided to introduce a retrospective assessment to reflect misalignment arising from unexpected changes in the DRM model; the test being whether the entity has mitigated interest rate risk (ie did unexpected changes during the period result in over-hedging?).

48. As an entity is only able to determine a risk mitigation intention that satisfies the prospective assessments at the start of the assessment period, any breaches against the retrospective assessment are likely to be caused by unexpected changes in the underlying cash flows during the DRM assessment period. As a result, the retrospective assessment is designed to capture potential misalignment arising from unexpected changes in the CNOP.

Documentation

49. As summarised in the Agenda Paper 4A for the April 2019 IASB meeting, the IASB discussed and tentatively agreed that an entity should formally document:

(a) the portfolio(s) of financial assets and portfolio(s) of financial liabilities designated in the DRM model;

(b) a description of the methodology and key assumptions used by the entity to estimate the core and non-core portions of its demand deposit portfolio;

(c) the methodology used by the entity to determine the amount of future transactions to be designated in the DRM model and how such designation is consistent with its risk management policies and procedures; and

(d) evidence supporting the high probability of future transactions occurring (which is needed for all future transactions other than the reinvestment or refinancing of existing financial assets or financial liabilities at the prevailing market interest rate)[6].

50. In addition, the documentation provided should be supported by an entity's risk management strategy, procedures and objectives. The following key elements of the risk management strategy would need to be documented and kept constant throughout the life of the DRM model:

(a) the processes to approve and amend the strategy;

(b) risk management levels and scope;

(c) the managed risks and the risk metrics used;

(d) range of acceptable risk limits (ie the target profile); and

(e) risk aggregation methods and risk management time horizon

Accounting for the DRM model

Accounting for qualifying items and derivatives designated in the DRM model

51. In May 2022, the IASB tentatively decided to retain the classification and measurement of the designated derivatives as at fair value through profit or loss. Given that derivatives themselves expose an entity to risk and are sensitive to changes in market factors or other risks, information about changes in their fair value is important to users of financial statements, even if these derivatives are used for risk management purposes.

[6] Please refer to Agenda Paper 4C of the April 2023 meeting for further considerations on the highly probable assessment.

52. In Agenda Paper 4A for the May 2022 meeting, the staff explained that retaining the original classification and measurement of the financial assets and financial liabilities included in CNOP, would provide useful information to the users of financial statements about the nature and extent of risks the entity is exposed to and is arising from the items, and thus would provide predictive value, confirmatory value or both.

Performance assessment

Calculation of the DRM adjustment

53. In its meeting of May 2022, the IASB tentatively decided that the DRM adjustment would be recognised in the statement of financial position, in absolute amounts, as the lower of (thereon, 'the lower of test')):

    (a) the cumulative gain or loss on the designated derivatives from the inception of the DRM model; and

    (b) the cumulative change in the fair value of the risk mitigation intention attributable to repricing risk from inception of the DRM model. This would be calculated using the benchmark derivatives as a proxy.

54. The DRM adjustment is recognised in the statement of financial position. This is consistent with the fact that the purpose of the DRM model is to reduce both variability in net interest income and in fair value of the risk mitigation intention.

Forward-looking capacity assessment

55. In its June 2024 meeting, as outlined in Agenda Paper 4A, the IASB discussed potential requirements related to the capacity assessment. This assessment would require an entity to evaluate whether its current net open risk position at the end of the DRM assessment period could realise the expected benefits represented by the DRM adjustment. The IASB tentatively decided that:

(a) an entity be required to measure the maximum future economic benefit of its current net open risk position at the reporting date based on the present value of that position.

(b) an entity that has recognised a capacity shortfall in the DRM adjustment in profit or loss be required to recognise the unwinding of that shortfall in future periods on either a straight-line basis or on another systematic and rational basis over the risk-management time horizon.

(c) an entity not be permitted to reverse any capacity shortfalls it has previously recognised in profit or loss.

Recognition of the DRM adjustment

56. The DRM adjustment would be recognised in the statement of financial position as discussed in paragraph 53 of this appendix. The amount deferred in the DRM adjustment will then be recognised in the profit or loss, based on the lower of the accrual profile of the designated derivatives and the benchmark derivatives.

Discontinuation of the DRM model

57. As discussed in Agenda Paper 4A for the November 2021 meeting, the IASB tentatively decided that any changes to an entity's risk management strategy, for example any changes that result in a change to the entity's target profile, would result in the discontinuation of the DRM model.

58. However, a change in target profile would only refer to a change in risk limits, rather than a change in overall risk management strategy. Therefore, the IASB further deliberated when the discontinuation of the DRM model occurs and whether such changes lead to discontinuation of the model in its September 2024 meeting, and concluded that an entity is required to discontinue applying the DRM model if the entity's risk management strategy changes—in other words, if the managed interest rate risk or how the entity manages that risk changes. In addition, an entity is not

permitted to discontinue applying the DRM model unless it changes its risk management strategy.

59. The IASB tentatively decided that if an entity discontinues the DRM model, and the cash flows from the underlying financial assets and financial liabilities continue to exist or future transactions are still expected to occur, then the amount recognised as the DRM adjustment would be recognised in profit or loss over the risk management time horizon.

Presentation and disclosure

60. In its July 2019 meeting, the IASB tentatively decided that the areas of focus for disclosures should be those that assist users of financial statements to:

    (a) understand and evaluate an entity's risk management strategy;

    (b) evaluate management's ability to achieve that strategy;

    (c) understand the impact on current and future economic resources; and

    (d) understand the impact on an entity's financial statements from the application of the model.

61. In its June 2024 meeting, the IASB deliberated specific presentation and disclosure requirements of the DRM model. As outlined in Agenda Paper 4B, the IASB tentatively decided that an entity be required:

    (a) to present the unwinding of the DRM adjustment recognised during the reporting period as a net amount in a separate line item in the statement of profit or loss;

    (b) to present any misalignment (between the net gains or losses from designated derivatives and the DRM adjustment) recognised during the reporting period together with the fair value gains or losses from other derivatives; and

    (c) to present the DRM adjustment as a net amount in a separate line item in the statement of financial position at the end of the reporting period.

The IASB also discussed the information needs of users of financial statements and an initial analysis of the potential disclosure requirements of the DRM model, as outlined in Agenda Paper 4C.

62. The IASB tentatively decided in its September 2024 meeting to propose that an entity be required to provide information that enables users of financial statements to understand:

    (a) the entity's interest rate risk management strategy and how it is used to manage repricing risk;

    (b) the effect of the entity's interest rate risk management activities on the amount, timing and uncertainty of its future cash flows; and

    (c) the effect of the entity's interest rate risk management activities on the statement of financial position and statement of profit or loss.

63. The IASB also tentatively decided to propose that an entity be required:

    (a) to disclose information relating to the application of the DRM model in a single note or in a separate section in the financial statements. An entity would be permitted to include information by cross-referencing from the financial statements to another statement, as long as that statement was available to users on the same terms and at the same time as the financial statement.

    (b) to apply the principles set out in paragraph 41 of IFRS 18 *Presentation and Disclosure in Financial Statements* when it decides the most appropriate way to aggregate information in its financial statements, including in the notes.

64. In regard to 'risk management strategy', the IASB tentatively decided to propose that an entity be required:

    (a) to disclose information about its risk management strategy that enables users of financial statements to understand:

        (i) how the entity's exposure to repricing risk arises, including a description of the underlying financial assets and financial liabilities

used to determine its CNOP and whether the entity's repricing risk arises from fixed or floating rate exposures;

(ii) the level at which the entity aggregates and manages its repricing risk;

(iii) how the entity identifies, aggregates, monitors and manages its repricing risk, including which risk metrics it uses and how frequently its CNOP and risk mitigation intention are determined; and

(iv) what the managed rate is, over which period the entity mitigates its repricing risk and (if the entity is allocating its risk exposures to repricing time periods) what repricing time periods the entity used; and

(b) to provide a qualitative disclosure to explain how the entity manages its repricing risk, if the entity carries out risk management activities applicable to the DRM model but chooses not to apply the DRM model. Such disclosures would include:

(i) how the entity's exposure to repricing risk arises;

(ii) how the entity identifies, aggregates, monitors and manages its repricing risk; and

(iii) how the entity reports its risk management activities in the financial statements.

65. In regard to 'amount, timing and uncertainty of future cash flows', the IASB tentatively decided to propose that an entity be required:

(a) to disclose qualitative and quantitative information on the terms and conditions of designated derivatives and how they affect the amount, timing and uncertainty of the entity's future cash flows. To meet this requirement, an entity would be required to disclose:

(i) profile of the timing of the nominal amount of the designated derivatives (for example, by the time periods in which they mature); and

(ii) the average price or fixed rate of the designated derivatives.

(b) to provide a sensitivity analysis showing how the net interest income or fair value of underlying items the entity used to determine its CNOP would change because of changes in interest rates that were reasonably possible at the reporting date.

66. In regard to the 'effects on financial position and performance', the IASB tentatively decided to propose that an entity be required:

(a) to disclose in a table the items the entity used to determine its CNOP, including:

(i) the carrying amounts of the recognised financial assets and financial liabilities, or the notional amounts of yet-to-be-recognised future transactions;

(ii) the line items in the statement of financial position containing the underlying items;

(iii) qualitative disclosures about the inputs, assumptions and estimation techniques the entity used to determine the expected cash flows; and

(iv) information about any included hedged exposures;

(b) to disclose in a table information about the designated derivatives, including:

(i) the carrying amount of the designated derivatives;

(ii) the line item in the statement of financial position containing the designated derivatives;

(iii) the change in fair value of the designated derivatives used as the basis for measuring the DRM adjustment; and

(iv) the nominal amounts of the designated derivatives;

(c) to provide information about the performance of the DRM model, distinguishing between continuing and discontinued DRM models. An entity would be required to include:

(i) how the entity reflects the effect of unexpected changes in its CNOP during the period;

(ii) the cumulative misalignment, the effect of misalignment in the current reporting period and the line items in profit or loss in which the misalignment is recognised; and

(iii) the expected profile for recognising the DRM adjustment in profit or loss, based on the designated and benchmark derivatives (this profile represents future 'protection' against net interest income variability); and

(d) to provide in a table a reconciliation from the opening balance to the closing balance of the DRM adjustment, distinguishing between continuing and discontinued DRM models, showing separately:

(i) the gains or losses (arising from changes in market interest rate) recognised as part of the DRM adjustment during the period;

(ii) the amount of DRM adjustment recognised in profit or loss during the reporting period; and

(iii) the amount of any reduction in the DRM adjustment recognised because of a capacity shortfall at the reporting date, and the expected effect on recognising the reduction in the DRM adjustment in profit or loss during the reporting period.

Transition and effective date

Transition

67. The IASB will consider the transition requirements in its October 2024 meeting.

Appendix B: Glossary of Defined Terms

Definitions	
Benchmark derivative	a theoretical derivative representing the entity's risk mitigation intention for measurement purposes.
Core demand deposits	financial liabilities, as defined in IAS 32 *Financial Instruments: Presentation*, that are payable on demand and will not reprice with a change in market interest rates over time. The extent of financial liabilities with demand features to be treated as core demand deposits is ultimately based on the entity's risk management policies and procedures.
Current net open risk position	the interest rate risk position (by time bucket) which is derived from the combination of either contractual or expected (ie modelled) cash flows from financial assets, financial liabilities (including core demand deposits) and eligible future transactions over the period which the entity is managing repricing risk.
Designated derivatives	derivatives (as defined in Appendix A of IFRS 9 *Financial Instruments*) that are traded with external counterparties which are being used for executing an entity's risk management strategy.
Managed risk	the specified interest rate risk an entity manages consistent with its risk management strategy. It is therefore the risk that an entity's risk limits are based on.
Risk limit	the extent of an entity's defined tolerance level for risk.

Definitions	
Risk mitigation intention	the extent to which an entity intends to mitigate the current net open risk position through the use of derivatives.
Target profile	the range (risk limits) within which the current net open risk position can vary while still being consistent with the entity's risk management strategy.