Staff paper

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IASB® meeting

Date	**October 2024**
Project	**Dynamic Risk Management**
Topic	**Due process and permission to begin the balloting process**
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Purpose and structure

1. The purpose of this paper is to:

   (a) explain the steps in the IFRS Foundation Due Process Handbook (the Due Process Handbook) that the IASB has taken in developing the proposed amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*, detailing the proposed requirements of the Dynamic Risk Management (DRM) model (the forthcoming Exposure Draft);

   (b) recommend a comment period of 240 days for the forthcoming Exposure Draft;

   (c) seek the IASB's permission to begin the process for balloting the forthcoming Exposure Draft; and

   (d) enquire if any IASB member intends to dissent from the proposals in the forthcoming Exposure Draft.

2. This paper is structured as follows:

   (a) Questions for the IASB;

   (b) Project background;

(c) Summary of due process steps for publication of an Exposure Draft;

(d) Comment period;

(e) Confirmation of due process steps, permission to begin the balloting process and intention to dissent;

(f) Appendix A—Due process steps taken in the development of the Exposure Draft;

(g) Appendix B—Public meetings with consultative bodies; and

(h) Appendix C—A summary of the evolution of the DRM project

Questions for the IASB

Questions for the IASB
1. *Comment period*—do the IASB members agree with the recommendation to have a comment period of 240 days for the forthcoming Exposure Draft? 2. *Dissent*—do any IASB members intend to dissent from the proposals in the forthcoming Exposure Draft? 3. *Permission to begin the process for balloting the Exposure Draft*—are the IASB members satisfied that the IASB has complied with the applicable due process steps and that the staff can begin the process for balloting the forthcoming Exposure Draft?

Project Background

3. Many entities carry out risk management activities to manage exposure to financial risks such as repricing risk. Repricing risk refers to the risk that, when financial assets or financial liabilities reprice at different times, changes in interest rates result in variability in net interest income arising from or fair value of these financial assets or financial liabilities.

4. These entities often aim to mitigate the net open repricing risk exposures arising from the underlying positions (that are frequently changing) on an aggregated basis over

time, as well as to achieve a flexible risk management outcome that is based on risk limits. This is generally referred to as 'dynamic repricing risk management'.

5. There are several accounting and financial reporting challenges associated with accurately reflecting the underlying economics of dynamic repricing risk management activities in an entity's financial statements, whilst providing useful information to users of financial statements.

6. Although IFRS 9 introduced improved hedge accounting and disclosure requirements that enable entities to better reflect their risk management activities in their financial statements, the IASB decided not to address accounting for dynamic repricing risk management activities as part of the new hedge accounting requirements of IFRS 9.

7. Instead, considering the nature and complexity of the topic, and feedback from financial institutions as well as from entities outside the financial sector, the IASB decided to have a separate project for the dynamic repricing risk management, that explores a more comprehensive accounting model and addresses the known challenges of macro hedge accounting. A summary of the evolution of the IASB's dynamic risk management project has been included in Appendix C of this paper.

8. In April 2014, the IASB published a Discussion Paper titled *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging* (Discussion Paper). This Discussion Paper set out a possible approach for accounting for an entity's dynamic interest rate risk management activities, referred to as the portfolio revaluation approach (PRA). The PRA aimed to better reflect an entity's dynamic interest rate risk management activities in its financial statements.

9. However, after considering feedback on the Discussion Paper, the IASB decided not to pursue the proposed PRA, which was more akin to fair value hedge accounting than cash flow hedge accounting.[1] Instead, based on feedback to the Discussion Paper, the IASB decided to develop a new model during 2017−2019, focussing only on repricing

[1] Please refer to the suite of agenda papers listed in Agenda Paper 4 of the IASB's February 2015 meeting and Agenda Paper 4 of the IASB's March 2015 meeting for the detailed analysis of feedback on the Discussion Paper.

risk—starting with the 'core areas' that were considered as foundational building blocks of the DRM model (core model). This core model was then discussed with the stakeholders during the IASB's targeted outreach activities that took place between October 2020 and February 2021(2020 outreach).[2]

10. The objective of the DRM model is to better reflect an entity's dynamic repricing risk management strategies and activities in its financial statements. In other words, the application of the DRM model will 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 managing its repricing risk;

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

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

11. To increase the viability and operability of the DRM model, the IASB decided to first focus on how banks manage repricing risk during the development of the DRM model, and consider whether a closer alignment with their repricing risk management activities could be achieved. This is because, previous consultations and stakeholder feedback indicated that banks constitute the majority of entities that manage repricing risk using dynamic risk management activities, and they have also been the main source of feedback on the operational challenges faced in applying the macro hedge accounting models.[3] The IASB decided to consider whether the proposed DRM model could be applied by other entities or to the management of other risks at a later stage.

12. The IASB acknowledged that repricing risk management activities are not carried out solely by banks and there are other entities, such as insurers, that might also have

[2] Please refer to the IASB's outreach plan in Agenda Paper 4 of its October 2019 meeting.

[3] For example, please see breakdown of respondents to Discussion Paper (by type and industry) in paragraph A2 of Appendix A in Agenda Paper 4A of the IASB's February 2015 meeting.

similar risk management activities. As noted in paragraphs BC54 and BC55 of the Basis for Conclusions on IFRS 17 *Insurance Contracts,* the IASB considered that the risk mitigation activities of insurers should be considered as part of a broader project on dynamic risk management.

13. As part of the consultations on the forthcoming Exposure Draft, in addition to seeking feedback on the proposed DRM model, the IASB will seek specific input and feedback from the insurance industry on how they manage interest rate risk and whether their risk management strategies and activities could be better reflected in their financial statements using the DRM model.

14. This feedback, collated as part of the consultations on the forthcoming Exposure Draft, is also expected to provide the IASB with an up-to-date perspective on the financial reporting challenges encountered by insurers, following the recent implementation of the new reporting requirements introduced by IFRS 17. Therefore, the IASB remains committed to assess whether the risk management strategy and activities of insurance entities could also be better reflected in financial statements using the DRM model or another alternative approach, and to consider the most efficient and appropriate way forward as part of the next phase of the project (see also paragraphs 44–49 of this paper).

15. Having considered the key challenges identified during the 2020 outreach, the IASB decided to add the DRM project to its standard-setting programme and work towards publishing an exposure draft in its May 2022 meeting.

16. The IASB continued to work on the remaining areas and topics that would require further consideration before the completion of the development of the DRM model, including the tentative decisions made on Agenda Paper 4A for this meeting.

Expected effects of the proposed DRM model

17. In developing the proposed requirements of the forthcoming Exposure Draft, the IASB considered the likely costs and benefits for each topic in the DRM project plan.

For example, the IASB considered how best to achieve a balance between the information users of financial statements need to understand an entity's repricing risk management activities, and preparers' concerns about the potential costs associated with providing the information and potential disclosure of commercially sensitive information.

18. The general hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 do not adequately reflect the effects of an entity's dynamic repricing risk management activities. Therefore, when applying these requirements, many entities are unable to provide a faithful representation of the effects of their risk management activities in their financial statements. Consequently, entities resort to using proxy designations of their hedged items to account for dynamic repricing risk management activities and this often results in a lack of transparency in the financial statements about how an entity manages its repricing risk.

19. The expected benefits of the DRM model can be summarised as:

    (a) *a closer alignment between an entity's risk management activities and accounting/financial reporting, reducing the need for proxy hedging*: general hedge accounting models are focused on hedging individual items or closed portfolios of items on a gross risk exposure basis. In contrast, the DRM model focusses on the aggregated risk view of the net repricing risk exposure arising from underlying portfolios/groups of financial assets and financial liabilities. Applying the DRM model, an entity would be able to better provide a clear link between its financial reporting and the actual risk mitigation activities it has carried out. In turn, this might lead to:

        (i) better operational efficiency in the long run (ie synergies could be achieved by eliminating duplication of some efforts for risk management and financial reporting purposes);

        (ii) less need for using non-GAAP information to explain the effects of an entity's repricing risk management, and the potential differences between the accounting/financial reporting view and risk management view.

(iii) reduction in the costs of workarounds to deal with the restrictions in IFRS 9 and IAS 39 (ie less reliance on proxy hedging); and

(iv) better economic decision-making through comprehensive and transparent financial reporting (see also sub-paragraph (c) of this paragraph).

(b) *eligible items*: applying the general fair value hedge accounting model, core demand deposits (the portion of an entity's demand deposit portfolio that is considered to be stable and managed as a fixed interest rate financial liability) that either pay no, or a low rate of interest, are not eligible to be designated as hedged items. In contrast, these items are permitted to be included in the DRM model for determining an entity's current net open risk position (CNOP). In addition, the DRM model allows an entity to include all eligible underlying items that give rise to repricing risk even if that leads to notional misalignment. This means that it is possible to use financial assets funded by an entity's equity when determining the entity's CNOP. Such benefits would be more significant to those entities that are running out of sufficient 'proxy hedge capacities'.

(c) *transparency*: the proposed presentation and disclosure requirements will enable users of financial statements to be provided with transparent information about an entity's dynamic repricing risk management activities, and the effect of such activities on the timing, amount and uncertainty of an entity's future cash flows—for example, how much an entity relies on the use of derivatives to achieve its risk management strategy over the risk management time horizon, and to what extent the entity has successfully mitigated the repricing risk.

20. As with all new requirements, it is reasonable to expect that the initial application of the DRM model will require entities to incur one-off implementation costs, similar to

those listed in paragraph BCE.227 of Basis for Conclusion on IFRS 9 (costs relating to transitioning from IAS 39 hedge accounting requirements to IFRS 9). The implementation costs that are expected to be incurred by entities on initial application of the DRM model relate to:

(a) development of new processes, systems and controls to integrate information produced for risk management purposes into their accounting and financial reporting processes (for example design, set-up and governance of prospective and retrospective performance tests);

(b) creation of financial reporting capabilities for some newly eligible accounting treatments, if they are intended to be used—for example, inclusion of core demand deposits when determining CNOP;

(c) arrangement of required documentation upon implementation of the new DRM requirements;

(d) education of accounting and financial reporting functions to enable them to assess whether the information prepared for risk management purposes would suffice to comply with the DRM model's requirements; and

(e) necessity to explain to users of financial statements the difference between the information produced for risk management purposes and the DRM model disclosures.

21. The staff also acknowledge that there would be ongoing costs associated with the DRM model, such as the construction and valuation of the benchmark derivatives, and calculation and monitoring of the DRM adjustment. However, we anticipate such costs are expected to be lower than the current costs of applying the general hedge accounting requirements in IAS 39. For example, when applying DRM model, entities will no longer have to continuously de-designate and re-designate hedge relationships to accommodate the dynamic nature of their risk management activities.

22. In the staff's view, the costs of initial application as well as the ongoing costs of applying the DRM model, will very much depend on the individual circumstances of

each entity—for example, the length of the DRM assessment period, the frequency of changes to the risk mitigation intention resulting in designation of new derivatives, the number and type of designated derivatives, and how the entity has implemented the DRM model in terms of processes and systems. It is therefore difficult to generalise the likely impact of costs on preparers.

23. Broadly, the staff expect that even though entities with sophisticated risk management functions, that produce reliable information for the entity's own management, will incur some costs relating to the initial application of the model (ie when establishing better alignment between risk management functions and the accounting/financial reporting function), the ongoing costs of the application is expected to be lower because of the synergies potentially achieved from alignment of the risk management with accounting/financial reporting.

24. We expect that entities that use bespoke or self-developed solutions, will be affected differently from those using standard (over-the-counter) software products. However, in all cases, the costs are expected to be mostly one-off implementation/initial application costs. Similarly, we expect costs to arise on initial application when the capabilities to provide required disclosures are created, and that there might be some ongoing costs associated with providing these disclosures. However, we believe, if entities embed these requirements in their systems that they use for preparing their financial statements from the onset, the ongoing costs of the model can be significantly reduced.

25. We also expect that the presentation and comprehensive disclosure requirements (provided in a single note) will reduce costs for users of financial statements. These will enable users of financial statements to access a set of information that is more transparent and relevant for their analysis of an entity's performance, and more closely linked to the entity's risk management decision making. Furthermore, these requirements will also reduce the need for investors to rely on un-audited management information to understand the impact of an entity's risk management activities on its

financial statements, and provide them with audited ‘anchor points’ for further analysis.

26. Consequently, based on the analysis included in paragraphs 17−25 of this paper and subject to feedback on the forthcoming Exposure Draft, in the staff’s view, the benefits of having implemented a DRM model—that better reflects an entity’s dynamic risk management strategies and activities in its financial statements—are, in the long run, likely to outweigh the costs, most of which would likely to be one-off costs associated with the implementation/initial application of the model.

Summary of due process steps for publication of an Exposure Draft

Due process requirements

27. Paragraphs 6.4 and 6.5 of the Due Process Handbook explains that:

(a) the development of an exposure draft takes place in public meetings;

(b) the technical staff prepares agenda papers containing research and recommendations on the matters to be addressed and considered by the IASB; and

(c) the IASB also considers the comments received on any discussion paper, suggestions made by consultative groups and accounting standard-setters, and suggestions arising from consultation with other stakeholders.

28. Paragraph 6.6 of the Due Process Handbook states that:

> When the Board [IASB] has reached general agreement on the technical matters in the project and has considered the likely effects of the proposals (see paragraphs 3.76–3.81 [of the Due Process Handbook]), the technical staff presents a paper to the Board [IASB]:
>
> (a) summarising the steps that the Board [IASB] has taken in developing the proposals, including a summary of when the Board discussed the

project in public meetings, public hearings held, outreach activities and meetings of consultative groups;

(b) if applicable, reaffirming why the Board [IASB] has decided that it was not necessary to have a consultative group or to have conducted fieldwork; and

(c) recommending a comment period for the exposure draft.

29. Paragraphs 30–49 of this paper discuss the due process steps that were undertaken during the project. Appendix A of this paper provides a more detailed account of the due process steps undertaken. Paragraphs 50–58 of this paper discuss the staff's recommendation for the comment period.

IASB meetings

30. Following the publication of the Discussion Paper in April 2014, the IASB held:

(a) two public meetings in February 2015 and March 2015 to discuss the feedback on the Discussion Paper.

(b) one public meeting in May 2015 to reconsider the objective for the project and discuss the proposed approach of prioritising interest rate risk and considering other risks at a later stage in the project.

(c) sixteen public meetings between July 2015 and July 2019 to discuss and develop the core model, that was used for the purposes of 2020 outreach.

(d) one public meeting in October 2019 to discuss and agree on the 2020 outreach plan. The IASB also provided updates on the progress of the 2020 outreach, which was partly delayed due to Covid-19 pandemic, in its public meetings of April 2020 and October 2020.

(e) one public meeting in April 2021 to discuss the feedback on the core DRM model collated through the 2020 outreach with banks (preparers).

(f) five public meetings between May 2021 and May 2022 to discuss refinements to the core model and to decide the project direction towards publishing an exposure draft.

(g) ten public meetings between July 2022 and September 2024 to further discuss the technical topics identified in the project plan.

The papers and recordings of these public meetings are available on the IFRS Foundation's website.

31. The staff summarised the tentative decisions made by the IASB that are applicable to the DRM model in Appendix A of Agenda Paper 4 of this meeting.

32. In this meeting the IASB will also discuss transition requirements of the DRM model and the potential consequential amendments to other IFRS Accounting Standards (see Agenda Paper 4A).

Reporting to the Due Process Oversight Committee and IFRS Advisory Council

33. The IASB is required to update the IFRS Advisory Council on its technical programme and major projects as part of its due process (paragraph 3.54 of the Due Process Handbook).

34. In June 2022, the Trustees were informed about the IASB's decisions to move the DRM project to the standard-setting programme and not to establish a dedicated consultative group for the project. The IASB decided to continue using the expertise of advisory bodies instead of establishing a dedicated consultative group for the project.

35. The Due Process Oversight Committee and the IFRS Advisory Council have received regular updates on the status and progress of the project as part of the discussion of the IASB's activities.

Meeting with consultative bodies

36. The project was discussed at meetings of the IASB's consultative bodies. Feedback received at those meetings was reported to and considered by the IASB when discussing the proposals for each topic in the DRM project plan. Appendix B to this paper provides a list of these meetings and topics discussed.

Other outreach activities and consultations

37. In developing the proposals in the forthcoming Exposure Draft, IASB members and/or staff have undertaken outreach activities and consulted with various stakeholders including preparers, users of financial statements, large accounting firms and prudential regulators.

2020 outreach—viability and operability of the core DRM model

38. IASB members and staff conducted individual outreach meetings with 28 banks, representing participants from different jurisdictions that operate in different regulatory and economic environments.[4] The outreach included participants with different repricing risk management strategies, risk appetites, hedging strategies and different balance sheet and funding structures.

39. Participants in the outreach were represented by individuals from both the treasury /risk management function as well as the accounting/finance function with the applicable knowledge of, and experience in, dynamic repricing risk management.

Ongoing engagement with stakeholders

40. In addition to the 2020 outreach, during the development of the DRM model, the staff continued to proactively seek informal feedback from the banks from different jurisdictions via targeted discussion with subject matter experts and industry working

[4] As detailed in Appendix A of Agenda Paper 4 for the IASB's April 2021 meeting, participants from Europe (19), Asia (5), South America (1), South Africa (1), Australia (1) and Canada (1) took part in the 2020 outreach.

groups. For example, the staff attended several meetings with the hedge accounting working group of International Swaps and Derivatives Association (ISDA) that includes representatives of many banks from different jurisdictions.

41. The staff has also held periodic discussions and education sessions with large accountancy firms, some national standard setters and prudential regulators, and asked for their views and input throughout the development of the DRM model.

2024 outreach—presentation and disclosure

42. During the first half of 2024, the staff and some IASB members held discussions with some users of financial statements from different jurisdictions, to understand their information needs regarding an entity's repricing risk management strategy and activities.[5] Eleven participants took part in these discussions, including banking analysts from both buy-side and sell-side institutions and credit rating agencies. The focus of the discussions was on the banking industry because, based on consistent feedback, it appears to be the industry that is mostly affected by dynamic repricing risk management as discussed in paragraph 11 of this paper.

43. In addition, while developing the proposed presentation and disclosure requirements, the IASB staff continued to informally consult with banks, to ensure any concerns they might have regarding the costs associated with providing the information and the commercial sensitivity regarding some items of this information are adequately addressed.

Insurance industry

44. During the first half of 2024, the staff and some IASB members also had targeted discussions with seven insurance companies, an insurance industry group, two auditing firms, and a national standard setter, to better understand how interest rate

[5] As detailed in Agenda Paper 4C for the IASB's June 2024 meeting, participants from Europe (6), Asia (1), South America (1), Africa (1), Australia (1) and Canada (1) took part in the 2024 outreach.

risk exposures arise from insurance activities, and how insurance entities manage and mitigate their interest rate risk exposures.

45. During the outreach, some insurance entities said that application of the DRM model, subject to some refinements (for example insurance liabilities being eligible for determining the CNOP), could appropriately reflect how they manage interest rate risk. However, some others said they do not expect the model to be applicable to their risk management activities and therefore need more time to assess the potential implications of applying the DRM model. The feedback from these targeted discussions is summarised in Agenda Paper 4A of the IASB's July 2024 meeting.

46. This feedback is consistent with the feedback on the Discussion Paper as analysed in Agenda Paper 4B for the IASB's February 2015 meeting. Although some insurance companies said that they dynamically manage open portfolios of insurance contracts, some said that portfolio revaluation approach is not applicable to them at that time, because the problems of accounting mismatches, that could arise from accounting for insurance contracts, are different from those faced by the banks.

47. The IASB conducted a targeted outreach and therefore received input from a limited number of insurance entities. Many other insurance entities have not been involved in, or may not even be aware of, the DRM project to date. As discussed in paragraphs 13−14 of this paper, the IASB acknowledged that more information about insurance entities' interest rate risk management activities is needed to determine whether the DRM model could provide useful information about their exposure to interest rate risk in their financial statements or if there are alternative approaches that would be more appropriate.

48. Consequently, the IASB decided to specifically seek input and feedback from insurance entities as part of the consultations on the forthcoming Exposure Draft. To obtain this feedback, the IASB will:

    (a) ask specific questions to understand how insurance entities manage their interest rate risk, and whether applying DRM model will provide users of financial statements with useful information—within a dedicated section in the Invitation to Comment;

(b) encourage insurance entities to participate in the fieldwork for testing the proposals included in the forthcoming Exposure Draft; and

(c) conduct dedicated outreach activities with insurance entities during the comment period.

49. These efforts will help the IASB determine the most efficient and appropriate approach—for addressing specific challenges faced by insurers based on the feedback on the forthcoming Exposure Draft—and the next steps accordingly, as part of the next phase of the project.

Comment period

50. Paragraph 6.7 of the Due Process Handbook states that the IASB normally allows a minimum period of 120 days for comment on an exposure draft. However, if the matter is narrow in scope and urgent, the IASB may consider a comment period of no less than 30 days. This is subject to obtaining approval from the Due Process Oversight Committee (DPOC).

51. In the staff's view, the minimum comment period of 120 days would not be appropriate for the DRM Exposure Draft. The DRM model is an entirely new accounting method and is different in many aspects to any other hedge accounting methods. In addition, such a significant change to accounting for an entity's risk management activities is by nature, complex. Entities will therefore need more time to become familiar with the proposed requirements before responding to the questions in the Invitation to Comment.

52. Furthermore, many stakeholders asked for the opportunity of carrying out fieldwork for testing the proposed requirements, to assess whether the application of the DRM model would achieve the IASB's objective of better reflecting the effects of an entity's risk management activities in its financial statements. They also need to

assess whether the proposed requirements can be embedded within their operational processes and systems, and what the potential ongoing costs and challenges of applying the requirements would be.

53. The staff also believe that to facilitate consultation with other entities such as insurers as noted in paragraph 48 of this paper, a comment period, that is significantly more than 120 days, would be needed.

54. On balance, in our view, a comment period of 240 days would be sufficient to allow stakeholders the opportunity to review and evaluate the proposals included in the forthcoming Exposure Draft, to solicit and consolidate the views in their jurisdictions, and to provide constructive feedback based on their fieldwork. We believe a 240-day comment period would also allow insurers sufficient time to assess whether the proposed requirements of the DRM model are better reflecting the effects of their risk management strategies and activities in their financial statements.

55. In addition, a 240-day comment period would allow entities sufficient time to conduct fieldwork across a reporting period end for most entities, regardless of when their annual reporting period ends. We think that a comparison between the fieldwork results and actual results will provide more meaningful information on the appropriateness of the DRM model.

56. Although some stakeholders indicated that they would prefer a fieldwork period of up to 12 months, we do not think this would be needed. This is because, in our view, most of the information needed to carry out fieldwork is expected to be readily available, and entities are not expected to design and implement fully integrated models for the purposes of fieldwork.

57. Lastly, we are aware that the IASB will decide in 2025 when to start the post-implementation review of the hedge accounting requirements in IFRS 9. We are of the view that there is a degree of overlap between the DRM model and the general hedge accounting requirements in IFRS 9. One reason for this overlap is because the proposed DRM disclosures are based on the general hedge accounting disclosures.

58. Another reason for the overlap is the intended replacement of IAS 39 as discussed in Agenda Paper 4A for this meeting. The DRM model applies only to repricing risk and only when an entity carries out specified risk management activities. Therefore, an overlap—in the consultation period on the DRM Exposure Draft and the consultations as part of the post-implementation review of the general hedge accounting requirements in IFRS 9—would allow the IASB to have a more coordinated approach in gathering evidence and information on whether the application of the DRM model could be applicable to the activities of entities other than banks or to risks other than repricing risk. It will also enable the IASB to identify potential alternative approaches for those instances in which the application of the DRM model is not appropriate.

Confirmation of due process steps, permission to begin the balloting process and intention to dissent

59. This paper demonstrates that the IASB has completed all the steps necessary for the balloting of the forthcoming Exposure Draft. Consequently, the staff are requesting permission to begin the balloting process.

60. In accordance with paragraph 6.9 of the Due Process Handbook, the staff would like to ask if any IASB member intends to dissent from the proposals in the forthcoming Exposure Draft.

Appendix A—Due process steps taken in the development of the Exposure Draft

A1. The following table shows how the IASB has complied to date with the due process steps required to finalise propose amendments in the forthcoming Exposure Draft in accordance with the Due Process Handbook

Step	Required/ Optional	Actions
IASB meetings held in public, with papers available for observers. All decisions are made in public session.	Required	The IASB discussed in public the proposed amendments to IFRS 9 *Financial instruments* and IFRS 7 *Financial Instruments: Disclosures* in relation to the DRM model. The project page on the IFRS Foundation website has been updated by the staff after every meeting. Agenda papers were posted on the website before every meeting on a timely basis and a summary of each meeting was included in IASB *Update*.
Consultation with the Trustees and the Advisory Council.	Required	The Trustees and the IFRS Advisory Council have received regular updates on the progress of the project as part of the discussion of the IASB's activities.
Fieldwork is undertaken to analyse proposals.	Optional	The proposed comment period of the forthcoming Exposure Draft will allow sufficient time for the stakeholders to carryout fieldwork and provide feedback.
Outreach meetings with a broad range of stakeholders, with special effort to consult investors.	Optional	In developing the proposals in the forthcoming Exposure Draft, IASB members and/or staff have undertaken outreach activities and consulted with various stakeholders including preparers, users of financial statements

Step	Required/ Optional	Actions
		(investors) and large accounting firms. Please see paragraphs 37−49 of this paper.
Webcasts and podcasts to provide interested parties with high-level updates or other useful information about DRM project.	Optional	The IASB staff prepared and presented two webcast series (in October 2022 and April 2023), providing technical updates on the key building blocks of the DRM model.
Analysis of the likely effects of the proposed requirements for the DRM model, for example, initial costs or ongoing associated costs.	Required	Paragraphs 17−26 of this paper broadly summarises the likely effects of the proposed amendments. The agenda papers posted on the website for each topic in the project plan also contain analyses of the likely effects, where applicable.
Due process steps reviewed by the IASB.	Required	This step will be met by this agenda paper.
The forthcoming Exposure Draft has an appropriate comment period.	Required	To be discussed by the IASB at this meeting. We recommend a comment period of 240 days.
Drafting		
Drafting quality assurance steps are adequate.	The IASB as well as the translations, taxonomy and editorial teams will review drafts during the balloting process.	
Publication		
Exposure Draft published.	The Exposure Draft will be made available on the IFRS Foundation's website when published.	
Press release to announce publication of Exposure Draft.	A press release will be published on the IFRS Foundation's website with the Exposure Draft.	
Snapshot document to explain the rationale and basic concepts included in the Exposure Draft.	The Snapshot document will be made available on the IFRS Foundation's website when the Exposure Draft is published.	

Appendix B—Public meetings with consultative bodies

B1. The following table lists the meeting dates and topics discussed with each of the consultative bodies, after the publication of the Discussion Paper. The meetings listed in this Appendix, relate to the discussions on the development of the proposed DRM requirements that will be included in the forthcoming Exposure Draft.

B2. As explained in paragraph 11 of this paper, the IASB decided to focus first on banks during the development of the DRM model. Therefore, the IASB did not hold any consultations with the Global Preparers Forum (GPF) or Capital Markets Advisory Committee (CMAC), participants of which mostly represent non-banking industries. Instead, the IASB held targeted outreach meetings with preparers and investors from the banking industry as discussed in paragraphs 38−43 of this paper.

Accounting Standards Advisory Forum (ASAF)	
September 2024	The objective of this discussion was to provide an update on the DRM project's progress towards an Exposure Draft and obtain input and views from ASAF members on the progress made to date, particularly on the IASB's recent tentative decisions on the applicable risk management activities for the DRM model, as well as the presentation and disclosure requirements.
July 2022	The objective of this session was to seek ASAF members' views and comments on: (a) the progress of the DRM project, in particular, the recent refinements the IASB has made to the DRM model; and (b) whether an entity's equity should be eligible for determining the entity's CNOP.
December 2020	The objective of this session was for the staff to provide ASAF members with: (a) an update about outreach on the core model; and (b) a summary of the characteristics of the

	participating banks and the common themes emerging from the feedback to date.
October 2019	The objective of this session was to provide an update on the project and request input from the ASAF members on potential ways of going forward with the outreach on the core model.
Islamic Finance Consultative Group (IFCG)	
May 2024	The objective of this session was to provide IFCG members with an overview of the project.

Appendix C—A summary of the evolution of the DRM Project

C1. The following table includes a high-level summary of the evolution of the IASB's DRM project.

A summary of the evolution of the DRM project	
Deliberations on Macro Hedging (2010)	• The IASB decided not to specifically address open portfolios or 'macro' hedging (ie hedging at the level that aggregates portfolios) as part of the 2010 Hedge Accounting Exposure Draft and started a separate project to redeliberate various aspects of accounting for macro hedging in September 2010. (See paragraphs BC6.84−BC6.104 of Basis for Conclusions on IFRS 9 *Financial Instruments*).
Development of the Discussion Paper (2010–2014)	• The IASB developed 'Portfolio Revaluation Approach (PRA)', under which exposures within open portfolios are revalued with respect to managed risk. • Discussion Paper used DRM of interest rate risk, particularly as managed by banks, for illustrative purposes (see paragraph IN5 of the Discussion Paper). • PRA was intended to be applicable to dynamic risk management of risks arising from both financial and non-financial items (see Section 8 of the Discussion Paper). • Question 25 of Discussion Paper asked whether PRA should be available for dynamic risk management, other than banks' dynamic interest rate risk management.
Feedback on Discussion Paper: Other risks (2015)	• As analysed in Agenda Paper 4 of the IASB's March 2015 meeting, many respondents said that the application of the PRA to DRM activities for non-interest rate risks in non-financial industries should be part of the model. • Some of these respondents mentioned that risk management activities in some non-financial industries such as the utility and energy sectors are similar to dynamic interest rate risk

	management by banks. • Many other respondents, however, did not support the application of the PRA to non-interest rate risks in non-financial industries. (See paragraphs 63−68 of Agenda Paper 4)
Feedback on Discussion Paper: Insurance industry (2015)	• As analysed in Agenda Paper 4B of the IASB's February 2015 meeting, insurance companies said that they dynamically manage open portfolios of insurance contracts. • However, some said that PRA is not applicable to them, because the problems of accounting mismatches that could arise from IFRS 4 *Insurance Contracts Phase II*, are different from those faced by the banks. • Some insurance companies stated that these accounting mismatches should be addressed within the insurance contracts project. If this is not possible, however, they suggested that the accounting for DRM should address these problems. (See paragraphs 11−13 of Agenda Paper 4B and also paragraphs BC53−BC56 of Basis for Conclusions on IFRS 17 *Insurance Contracts*)
Development of the core model and outreach (2015−2021)	• In May 2015, based on feedback to Discussion Paper, the IASB decided to prioritise the consideration of interest rate risk and consider other risks at a later stage in the project. • The IASB developed 'core areas' that would be considered foundational building blocks of the DRM model (core model). • Previous feedback indicated that banks constitute the majority of entities that manage interest rate risk using DRM strategies and have been the main source of feedback on the operational challenges faced in applying the macro hedge accounting models. Therefore, the IASB had focused exclusively on banks to discuss the core model during the 2020 outreach.

Further development of the DRM model (2021−2024)	• The IASB refined the core model further based on feedback from 2020 outreach and agreed on a project plan towards an exposure draft. • The IASB continued to proactively seek informal feedback from the banks regarding operability of the model via targeted discussion with subject matter experts and industry working groups. • The IASB also held periodic informal discussions and education sessions with large accountancy firms, some national standard setters and prudential regulators, and asked for their views and input throughout the development of the DRM model. • Once an operable DRM model for interest rate risk, as managed by banks, has been developed, the IASB intended to consider whether the application of the model could be extended to other industries, for example to address specific challenges faced by the insurance industry.