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Accounting

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# **Exposure Draft**

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## **Illustrative Examples and Implementation Guidance on Risk Mitigation Accounting**

Proposed amendments to IFRS 9 and IFRS 7

Comments to be received by 31 July 2026

**Illustrative Examples and  
Implementation Guidance on**

**Exposure Draft  
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IFRS 7**

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These Illustrative Examples and Implementation Guidance accompany the Exposure Draft IASB/ED/2025/1, which is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by **31 July 2026** and should be submitted by email to [commentletters@ifrs.org](mailto:commentletters@ifrs.org) or online at <https://www.ifrs.org/projects/open-for-comment/>.

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## **[Draft] Amendments to the Illustrative Examples on IFRS 9 *Financial Instruments***

Paragraphs IE160–IE237 and the related sub-headings are added. For ease of reading, these paragraphs and sub-headings are not underlined. The paragraph references in square brackets refer to paragraphs proposed to be added to IFRS 9 *Financial Instruments* in the Exposure Draft *Risk Mitigation Accounting*. These examples accompany, but are not part of, the Exposure Draft.

### **Risk mitigation accounting**

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IE160 These examples illustrate ways an entity might apply some of the requirements in [Chapter 7 *Risk mitigation accounting* of IFRS 9] to particular aspects of an entity’s repricing risk management on the basis of the facts presented in each example. The analysis in examples is not intended to represent the only manner in which the requirements could be applied and the examples are not intended to apply to only the specific industry illustrated. These examples do not necessarily illustrate all the requirements in the referenced paragraphs and they do not create additional requirements.

### **Example 20—Nature of business activities and risk management activities (Section 7.1)**

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IE161 To ensure that applying risk mitigation accounting provides useful information to users of financial statements, IFRS 9 permits an entity to apply risk mitigation accounting only if the entity’s business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9].

#### **Scenario 1—Bank providing financing and accepting deposits**

IE162 Entity A is a bank that provides financing to, and accepts deposits from, customers. These activities result in the entity frequently originating financial assets and issuing financial liabilities, both of which include fixed-rate and variable-rate instruments referenced to various interest rate benchmarks. Because of these repricing differences, Entity A’s exposure to repricing risk changes frequently.

IE163 Entity A’s risk management strategy specifies that the entity manages repricing risk on a net basis by aggregating the repricing risk arising from its financial assets and financial liabilities. To manage repricing risk on a net basis, Entity A’s risk management strategy requires the entity to measure its exposure to repricing risk based on the benchmark interest rate used for internal transfer pricing.

## RISK MITIGATION ACCOUNTING

- IE164 Entity A's exposure to repricing risk changes frequently as financial instruments are settled and new financial instruments are added. Consequently, Entity A determines its net repricing risk exposure on a regular basis to determine the extent to which the entity needs to undertake further risk management activities.
- IE165 Entity A uses interest rate derivatives to ensure that, over the mitigated time horizon, its residual exposure to repricing risk remains within the risk limits specified in its risk management strategy. To achieve this goal, Entity A uses several types of interest rate derivatives to mitigate the variability in both the cash flows from, and fair value of, its financial assets and financial liabilities.
- IE166 Entity A concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9] and therefore that it is permitted to apply risk mitigation accounting.

### Scenario 2—Manufacturing company

- IE167 Entity B is a manufacturing company that operates internationally in several regions. To ensure it can cost-effectively fund its operations in these regions and maintain enough cash balances to pay its operating expenses, Entity B obtains long-term loans in regions where and, at times, when interest rates are low. The proceeds from these loans are then invested in various types of interest-bearing financial assets with various maturities in regions where interest rates are high. Because of the repricing differences between its financial assets and financial liabilities, Entity B is exposed to repricing risk.
- IE168 Entity B's risk management strategy specifies that the entity manages repricing risk on the basis of each individual loan and investment. The strategy specifies separately the risk limits within which Entity B manages its interest expense and the risk limits within which the entity manages its interest income.
- IE169 Accordingly, Entity B uses interest rate derivatives to manage separately its exposure to variability in the cash flows from, or fair value of, its financial assets and financial liabilities.
- IE170 Entity B concludes that its business and risk management activities do not have the characteristics specified in [paragraph 7.1.4 of IFRS 9] and therefore that it is **not permitted to apply risk mitigation accounting**. Instead, Entity B chooses to apply the hedge accounting requirements in Chapter 6 *Hedge accounting* of IFRS 9 to represent the economic effect of its risk management activities in its financial statements.

## Example 21—Underlying portfolios: Hedged exposures (Section 7.2)

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### Fact pattern

- IE171 In accordance with its risk management strategy, Entity C manages repricing risk on a net basis by aggregating its exposure to repricing risk arising from specified financial assets and financial liabilities denominated in its functional currency. Entity C concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9]. The entity chooses to apply risk mitigation accounting.
- IE172 Although most of Entity C's business activities are denominated in its functional currency, it sometimes raises financing in a foreign currency. Because these foreign currency loans expose Entity C to both foreign currency and interest rate risks, Entity C manages these risks by using a cross-currency interest rate swap. The effect of this swap is to transform the fixed-rate liability denominated in a foreign currency into a variable-rate financial liability denominated in its functional currency.
- IE173 Entity C includes this variable-rate financial liability denominated in its functional currency, which results from taking into account the effects of the cross-currency interest rate swap, in determining its exposure to repricing risk.

### Analysis

- IE174 To account for the effects of its risk management activities in its financial statements, Entity C applies the hedge accounting requirements in Chapter 6 of IFRS 9. Entity C designates a fair value hedging relationship with:
- (a) the foreign currency financial liability as the hedged item;
  - (b) the cross-currency interest rate swap as the hedging instrument; and
  - (c) interest rate risk and foreign currency risk as the hedged risks.
- IE175 To manage the repricing risk arising from financial assets and financial liabilities on a net basis, Entity C includes the combined effect of the hedged item and hedging instrument described in paragraph IE174 in its underlying portfolios as a hedged exposure in accordance with [paragraph 7.2.2 of IFRS 9].
- IE176 Therefore, Entity C includes the hedged exposure in its underlying portfolios as a variable-rate liability denominated in the entity's functional currency in determining its net repricing risk exposure.
- IE177 Although Entity C includes the hedged exposure in its underlying portfolios, applying risk mitigation accounting does not affect how Entity C recognises and measures the hedged item and hedging instrument in accordance with Chapter 6 of IFRS 9.

## Example 22—Underlying portfolios: Financial assets measured at fair value through other comprehensive income (Section 7.2)

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### Fact pattern

- IE178 In accordance with its risk management strategy, Entity D manages repricing risk on a net basis and concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9]. The entity chooses to apply risk mitigation accounting.
- IE179 Entity D holds a portfolio of high-quality liquid bonds to meet its liquidity management requirements. Entity D measures these bonds at fair value through other comprehensive income.
- IE180 To manage the interest rate risk arising from the high-quality liquid bonds, Entity D enters into interest rate swaps to transform the fixed-rate instruments into variable-rate instruments.

### Analysis

- IE181 In accordance with [paragraph 7.2.1 of IFRS 9], Entity D can include financial assets measured at fair value through other comprehensive income in its underlying portfolios if the financial assets expose Entity D to repricing risk. However, whether and how Entity D includes the repricing risk arising from the bonds when determining the net repricing risk exposure depends on how Entity D manages repricing risk.
- IE182 If Entity D includes the repricing risk arising from its high-quality liquid bonds when determining its exposure to repricing risk for risk management purposes, Entity D could include the bonds in its underlying portfolios for the purposes of applying risk mitigation accounting. The interest rate swaps entered into as part of the entity's risk management activities are eligible to be included as designated derivatives. **Applying risk mitigation accounting does not change the measurement of the financial assets. Therefore, the fair value gains or losses recognised in other comprehensive income are unaffected.**
- IE183 Alternatively, Entity D's risk management strategy might be to mitigate the variability in the fair value of the bonds or to mitigate any other risks associated with the bonds. Entity D can apply hedge accounting in accordance with Chapter 6 of IFRS 9 to designate the bond in a fair value hedge. If, in accordance with Entity D's risk management strategy, Entity D includes repricing risk arising from hedged exposures when determining its exposure to repricing risk, such hedged exposures are eligible to be included in its underlying portfolios.

### Example 23—Underlying portfolios: Financial assets funded by own equity (Section 7.2)

#### Fact pattern

- IE184 In accordance with its risk management strategy, Entity E manages repricing risk on a net basis by aggregating its exposure to repricing risk arising from its financial instruments over a three-year rolling time horizon. Entity E's risk management strategy specifies that the entity uses cash-flow-based measures to stabilise its net interest income over the mitigated time horizon. **The entity chooses to apply risk mitigation accounting.**
- IE185 At the beginning of the period, Entity E has:
- fixed-rate term deposits from customers (financial liabilities) with a nominal amount of CU80 million and a maturity of two years;
  - variable-rate central bank deposits (financial assets) with a nominal amount of CU50 million; and
  - mortgage loans (financial assets) with a nominal amount of CU100 million and an interest rate that is fixed for two years.
- IE186 Entity E expects to reinvest or refinance the cash flows arising from the settlement of financial assets and financial liabilities.
- IE187 For the purposes of repricing risk management, **Entity E assumes any excess financial assets to be funded by its own equity.** In this case, Entity E assumes the CU70 million difference between the nominal amounts of financial assets and financial liabilities to be funded by Entity E's own equity.

	20X1	20X2	20X3
	CU (million)	CU (million)	CU (million)
<b>Financial assets</b>			
Mortgage loans – fixed-rate	100	100	–
Reinvestment of mortgage loans – variable-rate	–	–	100
Central bank deposits – variable-rate	50	50	50
<b>Total</b>	<b>150</b>	<b>150</b>	<b>150</b>
<b>Financial liabilities</b>			
Customer deposits – fixed-rate	(80)	(80)	–
Refinancing of customer deposits – variable-rate	–	–	(80)
<b>Total</b>	<b>(80)</b>	<b>(80)</b>	<b>(80)</b>
<b>Excess financial assets funded by own equity</b>	<b>70</b>	<b>70</b>	<b>70</b>

## RISK MITIGATION ACCOUNTING

IE188 In accordance with its risk management strategy, Entity E does not manage the repricing risk of all variable-rate items. Instead, Entity E relies on internal modelling (for example, equity modelling) to determine the extent to which the entity includes the variable-rate deposits when determining its exposure to repricing risk on a net basis.

### Analysis

IE189 Because an entity's own equity is not eligible to be included in its underlying portfolios, Entity E does not include the CU70 million of equity in its underlying portfolios. However, [paragraph B7.2.17 of IFRS 9] does permit an entity to use internal equity modelling as a proxy in determining the amount of variable-rate financial instruments to include in its underlying portfolios for the purposes of calculating its net repricing risk exposure.

IE190 Based on its internal modelling, Entity E includes a CU40 million nominal amount of central bank deposits in the repricing time band for 20X1 and a CU30 million nominal amount of central bank deposits in the repricing time bands for 20X2 and 20X3.

IE191 Entity E's underlying portfolios consist of:

- (a) mortgage loans with a nominal amount of CU100 million and a rate that is fixed for two years;
- (b) fixed-rate term deposits from customers with a nominal amount of CU80 million that mature after two years;
- (c) variable-rate central bank deposits with a nominal amount of CU30 million that mature in three years;
- (d) variable-rate central bank deposits with a nominal amount of CU10 million that mature in one year; and
- (e) the expected reinvestment and refinancing relating to (a) and (b).

	20X1	20X2	20X3
	CU (million)	CU (million)	CU (million)
<b>Fixed-rate exposures</b>			
Mortgage loans (financial assets)	100	100	–
Customer deposits (financial liabilities)	(80)	(80)	–
Total	20	20	0
<b>Variable-rate exposures</b>			
Central bank deposits (financial assets)	40	30	30
Reinvestment of mortgage loans (financial assets)	–	–	100
Refinancing of customer deposits (financial liabilities)	–	–	(80)
Total	40	30	50

## Example 24—Determining net repricing risk exposure (Section 7.2)

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### Fact pattern

- IE192 In accordance with its risk management strategy, Entity F manages repricing risk arising from its financial instruments on a net basis and concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9]. Entity F chooses to apply risk mitigation accounting.
- IE193 Entity F uses repricing maturity gap as the measure to quantify its exposure to repricing risk over a five-year rolling time horizon based on five year-long repricing time bands. At the beginning of 20X1, Entity F manages portfolios comprising:
- (a) portfolio FA1—fixed-rate mortgages with a nominal amount of CU500 million. The contractual maturity of the loans is five years, but the mortgages permit prepayment after two years.
  - (b) portfolio FA2—forecast fixed-rate mortgages (also referred to as ‘pipeline mortgages’) with a nominal amount of CU100 million, expected to complete after one year.
  - (c) portfolio FL1—variable-rate funding related to the forecast pipeline mortgages in portfolio FA2.
  - (d) portfolio FL2—customer deposits that are repayable on demand with a nominal amount of CU300 million.
  - (e) portfolio FL3—five-year variable-rate inter-bank borrowings with a nominal amount of CU200 million.
- IE194 Entity F expects to reinvest or refinance the cash flows arising from the settlement of financial assets and financial liabilities.

### Analysis

- IE195 To determine the net repricing risk exposure in accordance with [paragraph 7.2.5 of IFRS 9], Entity F aggregates the repricing risk arising from its underlying portfolios based on their expected repricing dates over the five-year period from 20X1–20X5.
- IE196 Entity F considers reasonable and supportable information consistent with how it makes risk management decisions. To determine the expected repricing risk arising from its underlying portfolios, Entity F considers information about the financial instruments, such as their contractual and behavioural characteristics, expectations about current and future conditions, and other factors related to estimating the amount of repricing risk.
- IE197 Based on Entity F’s internal modelling methods and assumptions, it expects:
- (a) for portfolio FA1—prepayments of CU20 million to arise in 20X3, CU30 million in 20X4 and CU50 million in 20X5.

## RISK MITIGATION ACCOUNTING

- (b) for portfolio FA2—highly probable forecast pipeline fixed-rate mortgages with a nominal amount of CU50 million to arise from 20X2 onwards. The other CU50 million is not highly probable.
- (c) for portfolio FL1—new highly probable financial liabilities that relate to the highly probable pipeline fixed-rate mortgages with a nominal amount of CU50 million to arise from 20X2 onwards.
- (d) for portfolio FL2—one-third of customer deposits (CU100 million) to be withdrawn every year. This estimate is based on the sensitivity of the entity's deposit rates to changes in interest rates (sometimes referred to as 'deposit beta') observed over the past 10 years. Therefore, the entity allocates fixed-rate exposures of CU200 million to 20X1 and CU100 million to 20X2.
- (e) for portfolio FL3—the borrowings of CU200 million to remain outstanding until contractual maturity.

IE198 Therefore, Entity F determines the net repricing risk exposure at the end of each year to be:

	20X1	20X2	20X3	20X4	20X5
	CU (million)	CU (million)	CU (million)	CU (million)	CU (million)
<b>Fixed-rate exposures</b>					
FA1	500	500	480	450	400
FA2	—	50	50	50	50
FL2	(200)	(100)	—	—	—
<b>Total</b>	<b>300</b>	<b>450</b>	<b>530</b>	<b>500</b>	<b>450</b>
<b>Variable-rate exposures</b>					
FA1—reinvestment <sup>(a)</sup>	—	—	20	50	100
FL1	—	(50)	(50)	(50)	(50)
FL2—refinancing <sup>(b)</sup>	(100)	(200)	(300)	(300)	(300)
FL3	(200)	(200)	(200)	(200)	(200)
<b>Total</b>	<b>(300)</b>	<b>(450)</b>	<b>(530)</b>	<b>(500)</b>	<b>(450)</b>

(a) Representing the reinvestment of the prepaid mortgages described in paragraph IE197(a).

(b) Representing the refinancing of withdrawn deposits described in paragraph IE197(d).

### Example 25—Specifying the risk mitigation objective (Section 7.4)

#### Fact pattern

IE199 In accordance with its risk management strategy, Entity G manages repricing risk on a net basis by aggregating its exposure to repricing risk arising from its financial instruments and concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9]. Entity G chooses to apply risk mitigation accounting.

- IE200 Entity G manages its repricing risk over a five-year rolling mitigated time horizon and quantifies its exposure to repricing risk using a repricing maturity gap measure based on five year-long repricing time bands.
- IE201 At the beginning of 20X1, the financial instruments in Entity G's underlying portfolios comprise:
- portfolio FA1—five-year, non-prepayable fixed-rate mortgages with a nominal amount of CU1,000 million;
  - portfolio FA2—fixed-rate financial assets with a contractual maturity of three years and a nominal amount of CU500 million;
  - portfolio FA3—variable-rate financial assets with a contractual maturity of two years and a nominal amount of CU200 million;
  - portfolio FL1—variable-rate financial liabilities with a contractual maturity of five years and a nominal amount of CU1,000 million;
  - portfolio FL2—variable-rate financial liabilities with a contractual maturity of four years and a nominal amount of CU500 million; and
  - portfolio FL3—non-interest-bearing customer deposits that are repayable on demand, with a nominal amount of CU200 million.
- IE202 Based on its internal modelling methods, Entity G expects that CU100 million of customer deposits in portfolio FL3 will be withdrawn each year. Entity G expects to reinvest or refinance the cash flows arising from the settlement of the financial assets and financial liabilities.
- IE203 At the beginning of 20X1, Entity G determines the net repricing risk exposure to be:

Net repricing risk exposure	20X1 CU (million)	20X2 CU (million)	20X3 CU (million)	20X4 CU (million)	20X5 CU (million)
<b>Fixed-rate exposures</b>					
FA1	1,000	1,000	1,000	1,000	1,000
FA2	500	500	500	—	—
FL3	(100)	—	—	—	—
<b>Total</b>	<b>1,400</b>	<b>1,500</b>	<b>1,500</b>	<b>1,000</b>	<b>1,000</b>
<b>Variable-rate exposures</b>					
FA3	200	200	—	—	—
FL1	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
FL2	(500)	(500)	(500)	(500)	—
FA2—reinvestment	—	—	—	500	500
FA3—reinvestment	—	—	200	200	200
FL2—refinancing	—	—	—	—	(500)
FL3—refinancing	(100)	(200)	(200)	(200)	(200)
<b>Total</b>	<b>(1,400)</b>	<b>(1,500)</b>	<b>(1,500)</b>	<b>(1,000)</b>	<b>(1,000)</b>

RISK MITIGATION ACCOUNTING

IE204 To manage its exposure to repricing risk, Entity G enters into four interest rate swaps:

- (a) swap one—a five-year pay-fixed receive-variable interest rate swap with a notional amount of CU1,000 million;
- (b) swap two—a three-year pay-fixed receive-variable interest rate swap with a notional amount of CU600 million;
- (c) swap three—a two-year receive-fixed pay-variable interest rate swap with a notional amount of CU300 million; and
- (d) swap four—a one-year receive-fixed pay-variable interest rate swap with a notional amount of CU100 million.

IE205 Entity G determines the net effects of these designated derivatives to be:

<b>Designated derivatives</b>	20X1 CU (million)	20X2 CU (million)	20X3 CU (million)	20X4 CU (million)	20X5 CU (million)
<b>Fixed-rate exposures</b>					
Swap one	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Swap two	(600)	(600)	(600)	—	—
Swap three	300	300	—	—	—
Swap four	100	—	—	—	—
<b>Total</b>	<b>(1,200)</b>	<b>(1,300)</b>	<b>(1,600)</b>	<b>(1,000)</b>	<b>(1,000)</b>
<b>Variable-rate exposures</b>					
Swap one	1,000	1,000	1,000	1,000	1,000
Swap two	600	600	600	—	—
Swap three	(300)	(300)	—	—	—
Swap four	(100)	—	—	—	—
<b>Total</b>	<b>1,200</b>	<b>1,300</b>	<b>1,600</b>	<b>1,000</b>	<b>1,000</b>

**Analysis**

IE206 To specify its risk mitigation objective in accordance with [paragraphs 7.4.1–7.4.4 of IFRS 9], Entity G considers its net repricing risk exposure and the designated derivatives it uses to mitigate repricing risk.

<b>Net repricing risk exposure</b>	20X1 CU (million)	20X2 CU (million)	20X3 CU (million)	20X4 CU (million)	20X5 CU (million)
Fixed-rate exposures	1,400	1,500	1,500	1,000	1,000
Variable-rate exposures	(1,400)	(1,500)	(1,500)	(1,000)	(1,000)

*continued...*

...continued

<u>Designated derivative</u>	20X1	20X2	20X3	20X4	20X5
Fixed-rate exposures	(1,200)	(1,300)	(1,600)	(1,000)	(1,000)
Variable-rate exposures	1,200	1,300	1,600	1,000	1,000

- IE207 Entity G specifies a risk mitigation objective that:
- is consistent with the amount of repricing risk it mitigates using designated derivatives; and
  - does not exceed the amount of net repricing risk exposure in each repricing time band.

<u>Risk mitigation objective</u>	20X1 CU (million)	20X2 CU (million)	20X3 CU (million)	20X4 CU (million)	20X5 CU (million)
Fixed-rate exposures	1,200	1,300	1,500	1,000	1,000
Variable-rate exposures	(1,200)	(1,300)	(1,500)	(1,000)	(1,000)

- IE208 In repricing time bands 20X1 and 20X2, Entity G specifies the risk mitigation objective at an amount lower than the net repricing risk exposure because not all of the repricing risk in these time bands is mitigated through designated derivatives. However, in repricing time band 20X3, Entity G restricts its risk mitigation objective to its net repricing risk exposure in accordance with [paragraph 7.4.1 of the IFRS 9], despite entering into more designated derivatives. For repricing time bands 20X4 and 20X5, Entity G fully mitigates its net repricing risk exposure and therefore has the same amount of repricing risk in the risk mitigation objective, net repricing risk exposure and designated derivatives.

### **Example 26—Indication that risk mitigation adjustment might not be realised in full (Section 7.4)**

#### **Fact pattern**

- IE209 In accordance with its risk management strategy, Entity H manages repricing risk on a net basis by aggregating its exposure to repricing risk arising from its financial instruments and concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9]. Entity H chooses to apply risk mitigation accounting.
- IE210 Entity H holds various portfolios of fixed-rate financial assets, which are funded by variable-rate financial liabilities.

## RISK MITIGATION ACCOUNTING

- IE211 At the beginning of period one, Entity H decides to fully mitigate its repricing risk exposure and evidences this decision through the designated derivatives into which it enters. Entity H constructs benchmark derivatives to represent the timing and amount of the repricing risk specified in its risk mitigation objective. Both the benchmark derivatives and designated derivatives have a fair value of zero at this date.
- IE212 Although market interest rates are highly volatile in period one, by the end of period one, benchmark interest rates have decreased by 20 basis points compared with the start of the period. This change leads to a CU4 million fair value loss from the designated derivatives and a CU4 million fair value gain from the benchmark derivatives.<sup>1</sup>
- IE213 In accordance with the requirements in [paragraph 7.4.8 of IFRS 9], Entity H recognises the risk mitigation adjustment at CU4 million in the statement of financial position.
- IE214 At the beginning of period two, Entity H expects the benchmark interest rate to decrease further due to changes in market conditions. No unexpected changes to Entity H's net repricing risk exposure occurred in period one and the entity enters into offsetting derivatives to reduce the extent to which it mitigates its repricing risk. Entity H specifies its risk mitigation objective and constructs a benchmark derivative accordingly.
- IE215 However, the benchmark interest rates increase by 20 basis points in period two, effectively returning to the rates as at the beginning of period one. At the end of period two, the designated derivatives have an accumulated fair value loss of CU1.2 million – a CU4 million loss from period one and a CU2.8 million gain from period two.<sup>2</sup>
- IE216 The cumulative change in the fair value of the benchmark derivatives at the end of period two is a gain of CU1.2 million. No unexpected changes occurred in period two in the net repricing risk exposure that would require Entity H to adjust the benchmark derivatives. As a result, the cumulative risk mitigation adjustment in the statement of financial position is a debit balance of CU1.2 million.

### Analysis

- IE217 The end of period two coincides with Entity H's reporting date. Paragraph [7.4.11 of IFRS 9] requires an entity to assess whether there is an indication that the accumulated risk mitigation adjustment recognised at the reporting date might not be realised in full over the mitigated time horizon.
- IE218 Although the benchmark interest rate has effectively not changed during the reporting period (which covers both periods one and two), the rate movements combined with the change in Entity H's risk mitigation objective during the reporting period have resulted in Entity H recognising the accumulated risk

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1 CU4 million is used to illustrate the fair value changes caused by the 20-basis-point decrease in the market interest rate during period one.

2 CU2.8 million is used to illustrate the fair value changes caused by the 20-basis-point increase in the market interest rate during period two.

mitigation adjustment at CU1.2 million. However, no unexpected changes occurred in the net repricing risk exposure during the reporting period that required the entity to adjust its benchmark derivatives.

- IE219 Entity H determines that, despite the movements in the benchmark interest rates, there is no indication at the reporting date that the accumulated risk mitigation adjustment might not be realised in full over the mitigated time horizon. Therefore, Entity H need not apply the requirement in [paragraph 7.4.12 of IFRS 9] to measure whether the risk mitigation adjustment exceeds the present value of the net repricing risk exposure.

### Example 27—Measuring present value of net repricing risk exposure (Section 7.4)

#### Fact pattern

- IE220 In accordance with its risk management strategy, Entity J manages repricing risk on a net basis by aggregating its exposure to repricing risk arising from its financial instruments. Entity J concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9]. It chooses to apply risk mitigation accounting and has a mitigated time horizon of five years.

- IE221 Entity J holds various portfolios of fixed-rate mortgages with nominal amounts of CU100 million, CU200 million and CU500 million for five-year, three-year and two-year maturities, respectively. These mortgages are funded by CU750 million of five-year variable-rate inter-bank borrowings and CU50 million of equity.

Net repricing risk exposure	20X1 CU (million)	20X2 CU (million)	20X3 CU (million)	20X4 CU (million)	20X5 CU (million)
<b>Fixed-rate exposures</b>					
Five-year mortgage	100	100	100	100	100
Three-year mortgage	200	200	200	—	—
Two-year mortgage	500	500		—	—
<b>Total</b>	<b>800</b>	<b>800</b>	<b>300</b>	<b>100</b>	<b>100</b>
<b>Variable-rate exposures</b>					
Five-year liability	(750)	(750)	(750)	(750)	(750)
Reinvestment of three-year mortgage	—	—	—	200	200
Reinvestment of two-year mortgage	—	—	500	500	500
<b>Total</b>	<b>(750)</b>	<b>(750)</b>	<b>(250)</b>	<b>(50)</b>	<b>(50)</b>

## RISK MITIGATION ACCOUNTING

- IE222 Market interest rates have been volatile over the past few years. Most of the mortgages were issued when market interest rates were much lower. Entity J now pays more interest on its inter-bank borrowings than it receives on its fixed-rate mortgages. The average fixed rate for these mortgages is 2.0%, but the current average rate on variable-rate inter-bank borrowings is 3.5%. However, Entity J had managed this risk by entering into pay-fixed receive-variable interest rate swaps before market interest rates increased and is now benefiting from a positive interest accrual on those swaps.
- IE223 After a strategic review of its business operations, Entity J sells 50% of its five-year and three-year customer mortgage portfolios at the beginning of 20X1. The entity deposits the proceeds of CU130 million at the central bank, earning variable-rate interest income.<sup>3</sup> Entity J had included these mortgages in underlying portfolios to determine its net repricing risk exposure in previous periods. Therefore, it is likely Entity J has used the mortgages it sold to support some of its accumulated risk mitigation adjustment.

### Analysis

- IE224 In accordance with [paragraph 7.4.11 of IFRS 9], Entity J determines there is an indication the risk mitigation adjustment as at the reporting date would not be fully realised over the mitigated time horizon because:
- (a) the sale of 50% of the entity's mortgage portfolios during the reporting period is a significant change in its underlying portfolios that the entity did not expect to occur; and
  - (b) the entity does not have the systems and processes necessary to adjust fully the benchmark derivatives for the effects of this unexpected change.
- IE225 [Paragraph 7.4.12 of IFRS 9] requires Entity J to determine whether the risk mitigation adjustment exceeds the present value of the net repricing risk exposure at the reporting date, using an approach based on reasonable and supportable information.
- IE226 Entity J uses an approach based on the present value of its fixed-rate financial instruments and constructs a replicating portfolio based on its variable-rate financial instruments. Entity J first calculates the present value of the remaining portfolios of fixed-rate customer mortgages, which have nominal amounts of CU50 million, CU100 million and CU500 million for five-year, three-year and two-year maturities, respectively.

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<sup>3</sup> The proceeds are lower than the nominal amount of the fixed-rate mortgages of CU150 million because the market interest rate has increased since the mortgages were issued. CU130 million is used for illustrative purposes, assuming a loss on sale of CU20 million.

IE227 Because Entity J has CU620 million variable-rate financial liabilities—CU750 million of 10-year variable-rate inter-bank borrowings and CU130 million of variable-rate central bank deposits—it makes another adjustment to represent the effect of repricing risk from variable-rate financial liabilities with a nominal amount of CU30 million.<sup>4</sup>

IE228 Entity J makes this adjustment by constructing a replicating portfolio based on an amortising profile of the excess variable-rate financial liabilities, in accordance with its risk management strategy. In this case, Entity J constructs five five-year derivatives, each with a CU6 million notional amount (equivalent to one-fifth of the variable-rate financial assets) and with staggered start dates corresponding to the beginning of each of the past five years, using the benchmark interest rate on those dates.

Net repricing risk exposure after sale	20X1	20X2	20X3	20X4	20X5
	CU (million)	CU (million)	CU (million)	CU (million)	CU (million)
Total fixed-rate exposures	650	650	150	50	50
Total variable-rate exposures	(620)	(620)	(120)	(20)	(20)
Fixed-rate exposures for present value calculation	650	650	150	50	50
Adjustment for variable-rate excess	(30)	(24)	(18)	(12)	(6)
Net repricing risk exposure used for present value calculation	620	626	132	38	44

IE229 The present value of the replicating portfolio plus the present value of fixed-rate exposures equals the present value of the net repricing risk exposure.

IE230 If the accumulated risk mitigation adjustment at the reporting date exceeds the present value of the net repricing risk exposure calculated as described in paragraphs IE224–IE229, Entity J recognises the excess amount immediately in profit or loss in accordance with [paragraph 7.4.14 of IFRS 9].

<sup>4</sup> Entity J makes another adjustment for a nominal amount of CU30 million of variable financial liabilities in this case because it holds a total of CU620 million of variable-rate liabilities (CU750 million of liabilities and CU130 million of assets) and a total of CU650 million of fixed-rate financial assets (CU50 million, CU100 million and CU500 million of assets).

### Example 28—Recognition of risk mitigation adjustment in profit or loss after discontinuation of risk mitigation accounting (Section 7.5)

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#### Fact pattern

- IE231 In accordance with its risk management strategy, Entity K manages its repricing risk on a net basis by aggregating its exposure to repricing risk arising from its financial instruments. Entity K concludes that its business and risk management activities have the characteristics specified in [paragraph 7.1.4 of IFRS 9]. Entity K chooses to apply risk mitigation accounting.
- IE232 At the end of 20X1, the accumulated risk mitigation adjustment in Entity K's statement of financial position is a credit balance of CU28 million.<sup>5</sup>
- IE233 To date, Entity K has managed its repricing risk using a cash flow-based measure. However, changes in the market in which Entity K operated over the past 12 months led to the entity's management deciding to manage repricing risk using a fair value-based measure going forward.

#### Analysis

- IE234 The change in the measure Entity K uses to determine which risk management activities to undertake, and when, is a change in how Entity K manages its repricing risk. Entity K is therefore required by [paragraph 7.5.1 of IFRS 9] to stop applying risk mitigation accounting prospectively from the end of 20X1.
- IE235 In accordance with the requirements in [paragraph 7.5.3 of IFRS 9], Entity K assesses whether the repricing risk arising from its underlying portfolios is still expected to affect profit or loss, consistent with its previous expectations.
- IE236 Entity K concludes that the change in the market in which it operates did not affect its expectations about whether repricing risk arising from its underlying portfolios will affect profit or loss. Therefore, Entity K continues to recognise the accumulated risk mitigation adjustment in profit or loss on a systematic and rational basis, in accordance with [paragraph 7.5.3(a) of IFRS 9].
- IE237 If no unexpected changes occurred in 20X1 in its underlying portfolios for which the benchmark derivatives have not been adjusted, Entity K could use the accrual profile of the benchmark derivatives to determine the amount of the risk mitigation adjustment to recognise in profit or loss. However, if the benchmark derivatives are no longer representative of the expected effects of repricing, Entity K could amortise the accumulated risk mitigation adjustment on a straight-line basis for the remaining four years of the mitigated time horizon. Such an approach would also meet the requirement in [paragraph 7.5.3(a) of IFRS 9].

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<sup>5</sup> The risk mitigation adjustment is calculated based on the requirements in [paragraphs 7.4.8–7.4.14 of IFRS 9], using CU28 million for the purpose of illustration.

**[Draft] Amendments to Guidance on implementing IFRS 7  
Financial Instruments: Disclosures**

Paragraphs IG14A–IG14F and their related headings are added. For ease of reading, new text is not underlined. Existing headings have been provided in grey text for ease of reference. The paragraph references in square brackets refer to paragraphs proposed to be added by the Exposure Draft.

**Significance of financial instruments for financial position and performance (paragraphs 7–30, B4 and B5)**

...

**Risk mitigation accounting (paragraphs 30D–30P)**

**The amount, timing and uncertainty of future cash flows**

IG14A [Paragraph 30J] of IFRS 7] requires an entity to disclose qualitative and quantitative information about the terms and conditions of designated derivatives and how they affect the amount, timing and uncertainty of the entity's future cash flows. The following example illustrates how the entity might disclose that information:

The Company held the following interest rate swaps as designated derivatives for the purposes of risk mitigation accounting, as at 31 December 20X2 and 31 December 20X1.

	Maturity analysis as at 31 December 20X2				Maturity analysis as at 31 December 20X1			
	Less than 1 year	1–2 years	2–5 years	More than 5 years	Less than 1 year	1–2 years	2–5 years	More than 5 years
	<b>Interest rate swaps</b>							
- Pay-fixed receive-variable								
Nominal amount (CU million)	X	X	X	X	X	X	X	X
Average fixed rate	X%	X%	X%	X%	X%	X%	X%	X%
- Receive-fixed pay-variable								
Nominal amount (CU million)	X	X	X	X	X	X	X	X
Average fixed rate	X%	X%	X%	X%	X%	X%	X%	X%

RISK MITIGATION ACCOUNTING

IG14B The following example illustrates how an entity might disclose the information required by [paragraph 30K of IFRS 7]:

<b>Sensitivity analysis</b>				
The effects of reasonably possible changes in the mitigated rate could affect the cash flows from, and fair value of, underlying portfolios as follows (assuming no changes in how the expected cash flows are estimated):				
	<b>Fair value sensitivity</b>		<b>Cash flow sensitivity</b>	
	<b>31 December 20X2</b>	<b>31 December 20X1</b>	<b>31 December 20X2</b>	<b>31 December 20X1</b>
	<b>CU million</b>	<b>CU million</b>	<b>CU million</b>	<b>CU million</b>
Parallel shock up by xxx bps	(X)	(X)	X	X
Parallel shock down by xxx bps	X	X	(X)	(X)
Shock of curve steepening	X	X	X	X
Shock of curve flattening	(X)	(X)	(X)	(X)
Other shock scenarios (to specify)	X	X	X	X

**The effects of risk mitigation accounting on financial position and performance**

IG14C The following example illustrates how an entity might disclose the information required by [paragraph 30L of IFRS 7] in a table (for illustration purposes, comparative information is not shown):

The following financial instruments were included in underlying portfolios aggregated to determine the net repricing risk exposure as at 31 December 20X2:					
	<b>Nominal amount CU million</b>	<b>Carrying amount</b>		<b>Line item in the statement of financial position</b>	<b>Inputs, assumptions and estimation techniques</b>
		<b>Asset CU million</b>	<b>Liability CU million</b>		
Central bank deposits	X	X	-	Balances at central banks	Contractual maturity
Unsecured loans	X	X	-	Loans and advances to customers	Expected maturity <sup>a</sup>
Customer demand deposits	X	-	(X)	Customer deposits	Expected maturity <sup>b</sup>

continued...

...continued

Future transaction – retail mortgage	X	n/a	-	n/a	Expected maturity <sup>c</sup>
Hedged exposures (see below)	n/a	-	(X)	Debt securities in issue	n/a

The hedged exposure relates to a fair value hedging relationship. (The Company provides the information required by paragraphs 24A and 24B(a) of IFRS 7 regarding its fair value hedged exposure.)

Additional information relating to the inputs, assumptions and estimation techniques used to aggregate repricing risk by repricing time band:

- Internal models are used to consider the effects of potential early repayments based on past experience and management forecasts.
- Internal models are used to identify the portion of the demand deposits that are managed as fixed-rate exposures for a specified period, which is determined based on the deposit beta observed in the past 10 years.
- Includes highly probable pipeline retail mortgages based on information relating to the current mortgage offers and acceptance, past experience of similar products and management forecasts.

IG14D The following example illustrates how an entity might disclose the information required by [paragraph 30M of IFRS 7] in a table (for illustration purposes, comparative information is not shown):

The amounts relating to interest rate swaps included as designated derivatives for the purposes of risk mitigation accounting as at 31 December 20X2 were as follows:

	Nominal amount	Carrying amount		Line item in the statement of financial position	Change in fair value used as the basis for measuring the risk mitigation adjustment
		Asset	Liability		
CU-denominated interest rate swaps (in CU million)	X	X	-	Derivative assets	(X)
FCU-denominated interest rate swaps (in CU million)	X	-	(X)	Derivative liabilities	X

IG14E The following examples illustrate how an entity might disclose the information required by [paragraph 30N of IFRS 7] in a table (for illustration purposes, comparative information is not shown):

## RISK MITIGATION ACCOUNTING

<b>Risk mitigation accounting</b>					
	Continued	Discontinued	Total	Cumulative	Line item in the statement of profit or loss
	CU million	CU million	CU million	CU million	
Gains or losses on the designated derivatives not included in risk mitigation adjustment	(X)	(X)	(X)	(X)	Net trading income
Effects of unexpected changes <sup>a</sup>	(X)	(X)	(X)	(X)	Net trading income
<b>Total misalignment for the year ending 31 December 20X2</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	

a. As at 31 December 20X2, the Company reassessed its net repricing risk exposure based on the latest expectations as at that time and identified significant changes in the repayment profile of a few portfolios of mortgage loans. The Company captured the effect of these unexpected changes by measuring the risk mitigation adjustment excess, which resulted in CU X million previously reported in risk mitigation adjustment being recognised in profit or loss as at 31 December 20X2.

As at 31 December 20X2, the Company had a total risk mitigation adjustment of CU X million that will be recognised in profit or loss in future reporting periods, providing protection against future interest variabilities.

<b>Maturity analysis as at 31 December 20X2</b>					
	Less than 1 year	1–2 years	2–5 years	More than 5 years	Total
Risk mitigation adjustment – continued	X	X	X	X	X
Risk mitigation adjustment – discontinued	X	X	X	X	X
<b>Total risk mitigation adjustment</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

IG14F The following example illustrates how an entity might disclose the information required by [paragraph 300 of IFRS 7] in a table (for illustration purposes, comparative information is not shown):

<b>Risk mitigation adjustment</b>
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*continued...*

...continued

	Risk mitigation accounting —continued	Risk mitigation accounting —discontinued	Total
	Carrying amount CU million	Carrying amount CU million	Carrying amount CU million
1 January 20X1	X	X	X
Fair value gains or losses	X	n/a	X
Amounts recognised in profit or loss	(X)	(X)	(X)
Other adjustment — excess recognised	(X)	(X)	(X)
<b>31 December 20X1</b>	<b>X</b>	<b>X</b>	<b>X</b>



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