Basel Committee
on Banking Supervision

BIS

Centralbahnplatz 2
CH-4002 Basel, Switzerland
Tel: +41 61 280 8080
email@bis.org www.bis.org

Chair

Via email

28 October 2026

Mr Sam Woods
Chair
International Accounting Standards Board (IASB)
Columbus Building, 7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom

Exposure Draft ED/2025/1 — *Risk Mitigation Accounting: Proposed Amendments to International Financial Reporting Standards (IFRS) 9 and 7*

Dear Mr Woods

The Basel Committee on Banking Supervision (the Committee) welcomes the opportunity to respond to the International Accounting Standards Board's (IASB) Exposure Draft (ED) on risk mitigation accounting (RMA).

The Committee supports the IASB's objective for RMA to enable banks to better reflect the economic effects of their interest rate risk management activities in their financial statements, and to improve the usefulness of information for users. Enhanced transparency on how banks use derivatives to protect earnings and capital from interest rate changes supports the proper functioning of capital markets and effective prudential supervision.

The Committee welcomes the IASB's active engagement with prudential regulators and industry during the development of these proposals, including collaboration with the Committee's Accounting and Audit Expert Group (AAEG). We also welcome the IASB's responsiveness to feedback, including the extended consultation period and the ongoing fieldwork programme.

The Committee's views are subject to important caveats. There are significant conceptual and implementation uncertainties as the IASB continues to develop and finalise the model, including the outcomes of fieldwork and the matters raised by the Committee in this letter. In addition, the standard will need to be capable of being applied in a consistent and high-quality manner. Subject to those significant uncertainties, the Committee's preliminary view is that the model has the potential to be an improvement relative to International Accounting Standard (IAS) 39 and could better reflect how banks manage interest rate risk. This assessment is based on our reading of the ED set out and commented on in the Annex, in particular on the treatment of changes in expected customer behaviour, and on valuations not anticipating future margin profits.

Given the scale and complexity of the change, it is essential that sufficient, robust empirical evidence should be available to assess costs and benefits, and to understand the practical challenges banks may face both at transition and beyond. The Committee encourages the IASB to share the results and conclusions of its fieldwork with the AAEG.

RMA represents a step change in complexity and judgment relative to existing hedge accounting. Outcomes will be model-driven and depend on data quality and judgmental behavioural assumptions, for example deposit stability, pre-payment rates and default expectations. Given the

Centralbahnplatz 2
CH-4002 Basel, Switzerland
Tel: +41 61 280 8080
email@bis.org www.bis.org

principle-based nature of the proposals, outcomes will also depend on banks' implementation decisions, including how benchmark derivatives are constructed and adjusted for unexpected changes, and how the risk mitigation adjustment excess test is applied.

In evaluating the proposals, the Committee has focused on the RMA model's sensitivity to changes in risk, and whether any increase in earnings volatility would be economically grounded. Volatility should reflect changes in repricing risk and the timely recognition of over-hedging. Earnings volatility driven solely by accounting, without a change in a bank's economic position or a decline in the effectiveness of risk management, would be unwarranted. The Committee believes refinements are needed to strengthen the model and reduce the risk of unwarranted earnings volatility that could amplify economic stress or contribute to procyclical behaviour.

The Committee highlights the following high-priority issues for the IASB to address in finalising the standard, and which are developed in the annex:

- *Clearer triggers and measurement principles for the risk mitigation adjustment excess test:* to remove ambiguity in the conditions that trigger the test, provide clear guidance and principles on how to implement present value measures for the net repricing risk exposure (NRRE) and not incorporate unrealised future margins. The aim is to strike an appropriate balance between avoiding irreversible, unwarranted earnings volatility when banks take prudent risk management actions, and ensuring the test has sufficient discriminatory power. Specifically, the test should ensure the model captures ineffectiveness from over-hedging in earnings in a timely manner, and that the valuation of risk mitigation adjustments does not depend on future profitability measures that may not be available under all economic conditions (eg a downturn).
- *Clear and unambiguous definition of unexpected changes, incorporating changes in expected future model inputs including customer behaviour:* to ensure a sound and consistent basis for determining earnings and for valuing the risk mitigation adjustment. This is fundamental to assessing the accounting and prudential implications of the model.
- *Stronger principles for neutral and unbiased measurement and the use of expert judgment:* to strengthen the principles supporting well governed judgment where models and data are limited, and to ensure realistic assumptions about how expected liquidity outflows affect repricing risk and how those outflows would be met in practice, including in stress.
- *Clearer guidance on credit risk on loans:* to support a consistent and proportionate approach to factoring customer credit risk into risk mitigation adjustment calculations and promote consistent and reliable measurement.
- *Clarity that assumptions or models used for risk management practices may need to be adjusted for RMA purposes:* to recognise their distinct scope and purposes and support neutral, unbiased and auditable financial reporting.

Finally, to support high-quality and consistent implementation, the Committee encourages the IASB to provide sufficient time, clear guidance and effective implementation support, to reduce the risk of unwarranted volatility in earnings and capital both at transition and beyond.

Centralbahnplatz 2
CH-4002 Basel, Switzerland
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email@bis.org www.bis.org

This letter has been prepared by the Committee's AAEG, chaired by Mr Dean Postans, Chief Accountant at the UK Prudential Regulation Authority, and Mr Robert Sharma, Head of Accounting Risk Services at the Australian Prudential Regulation Authority. If you have any questions regarding these comments, please contact the Basel Committee Secretariat (mathilde.lalaude-labayle@bis.org).

Yours sincerely



Erik Thedéen

Centralbahnplatz 2
CH-4002 Basel, Switzerland
Tel: +41 61 280 8080
email@bis.org www.bis.org

Annex: Detailed comments

Clearer triggers and measurement principles for the excess test

Relevant to Question 6 – Recognising and measuring the risk mitigation adjustment

1. The Committee agrees with the general measurement framework in paragraphs 7.4.8–7.4.10 and B7.4.15–B7.4.17, including the "lower of" requirement. Paragraphs BC93–BC96 of the Basis for Conclusions (BC) explain that this is intended to ensure that the risk mitigation adjustment represents only the extent to which designated derivatives have successfully mitigated repricing risk.

2. The Committee also agrees on reflecting the effects of unexpected changes in the measurement of the risk mitigation adjustment through retrospective adjustments of the benchmark derivatives. In this regard, the IASB should further clarify that capturing the effect of unexpected changes through the adjustment of the benchmark derivatives may require a bank to approximate the changes since the affected underlying portfolios were first included in the NRRE.

3. However, the Committee has significant concerns regarding the excess test provisions in paragraphs 7.4.11–7.4.14 and B7.4.18–B7.4.23.

4. We note that the excess test is an entirely new metric that does not align with how risk is monitored for risk management purposes and may create unwarranted outcomes and adverse incentives. Nevertheless, we are aware that some banks may need to resort to the excess test where retrospective adjustments to benchmark derivatives are not operationally feasible or do not fully capture the effects of unexpected changes. The Committee therefore asks the IASB to fundamentally rethink and improve the underlying design of the excess test. Without such improvements, the Committee suggests to clarify that the excess test is intended to operate only as a backstop in such limited circumstances (rather than as a general alternative to retrospective adjustments). It also asks to improve the guidance on the retrospective adjustments of benchmark derivatives to make them more suitable for implementation (eg to give more details on acceptable approximation methods mentioned in paragraph 2 above).

5. In addition, paragraph 7.4.11 requires a bank to assess whether there is an "indication" that the risk mitigation adjustment might not be realised in full. While paragraphs BC104–BC105 characterise this as a "reasonableness test based on a snapshot of the underlying portfolios", the ED does not specify what constitutes a sufficient "indication". This creates scope for inconsistent application. One bank may trigger the test under scenarios where another would not. The Committee recommends that the IASB clarify what constitutes an "indication" for the purposes of paragraph 7.4.11 and provide enforceable principles to ensure consistent application. In particular, the IASB should clarify whether changes in the risk mitigation objective, risk limits or time band allocations, which reflect sensible and reversible risk management decisions, constitute an "indication" for these purposes.

6. The Committee observes the excess test may deliver reliable outcomes under simplified assumptions. However, under more complex but realistic scenarios, it may have unintended effects that lead to unwarranted and irreversible earnings volatility. This can happen when, for example, entities change their hedging policy (eg the risk mitigation objective) over time as interest rates change, or hedge the net repricing risk to varying degrees across different time bands. Both practices are common ways to steer interest rate

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risk in practice. These sensible and reversible actions do not fundamentally change the bank's ability to recover the risk mitigation adjustment from the underlying portfolio. Yet under the excess test, due to its simplified design, such actions may trigger immediate, unwarranted and irreversible write-offs of the risk mitigation adjustment against earnings.

7. The Committee recommends clarifying the application guidance to paragraph 7.4.13 on how the present value calculation should be applied where banks hedge to varying degrees across different time bands or where the risk mitigation objective evolves over time. Without such guidance, the simplified present value measure, which the IASB itself characterises as an approximation in B7.4.21 and BC112, may produce outcomes that do not faithfully reflect the bank's ability to recover the risk mitigation adjustment from the underlying portfolio.

8. Moreover, we were informed of a potential implementation of the excess test, in which unrealised future commercial margins from underlying portfolios would be added to the present value of the NRRE. We do not read the ED as permitting this. Such an approach could overestimate the value of mitigation adjustments and defer loss recognition. These outcomes conflict with the objective of capturing ineffectiveness from over-hedging in earnings in a timely manner. Moreover, if this approach were to be implemented, banks could build up and distribute artificially recognised profits during favourable periods (times of high margins), which may subsequently need to be revised when profitability comes under pressure. This additional procyclical element is not based on the economics of risk management and would be an element of concern. Therefore, the Committee recommends that the IASB explicitly rule out this potential implementation of the excess test and provide clarifying guidance.

Clear and unambiguous definition of unexpected changes

Relevant for Question 5 – Risk mitigation objective and benchmark derivatives

9. The Committee supports the overall approach in paragraphs 7.2.5–7.2.10 and B7.2.1–B7.2.17 for determining the NRRE, and the framework for the risk mitigation objective and benchmark derivatives in paragraphs 7.4.1–7.4.7. However, the Committee is concerned that, without clearer guidance on what constitutes an "unexpected change" under paragraph 7.4.6, the model may not provide a sound and consistent basis for determining earnings or valuation of the risk mitigation adjustment.

10. Lack of clarity could lead to inconsistent application, materially different earnings outcomes for banks with similar exposures and uncertainty about whether the risk mitigation adjustment is recoverable.

11. The Committee understands that two interpretations are being applied in stakeholder analysis and fieldwork. Under one view, changes in expected future customer behaviour and repricing profiles are sufficient to trigger unexpected changes, requiring timely adjustment of benchmark derivatives and potentially immediate recognition of gains or losses. Under the other view, an unexpected change arises only when actual outcomes differ from earlier expectations, so that expected customer behaviour could deteriorate without gains or losses being recognised.

12. The Committee's analysis has been based on the first, forward-looking interpretation. It is consistent with an expectation-based assessment of the NRRE and with ensuring

Centralbahnplatz 2
CH-4002 Basel, Switzerland
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benchmark derivatives are representative of the repricing risk being mitigated over time. The Committee does not support an alternative, actual outcome-based interpretation that could result in losses being capitalised as a balance sheet asset even when the bank no longer expects the underlying exposure to generate sufficient repricing risk to support recovery of those losses. The difference in interpretation is not driven by different practices in risk management or different market environments; rather, it is a choice driven purely by desired accounting outcomes and lacks a clear accounting objective.

13. At the same time, the Committee acknowledges the difficulty to perform a forward-looking assessment of the NRRE with perfect foresight. When uncertainty is high, the modelling of customer behaviour could fail and generate forecast errors, especially in periods where behaviours are driven by psychological factors (eg deposit runs / liquidity crises). Therefore, the forward-looking assessment of the NRRE needs to be governed and implemented in a sound manner to ensure it performs as intended.

14. The Committee therefore recommends the IASB clarify the definition of unexpected changes and continue engaging with the AAEG so that accounting and prudential consequences can be assessed.

Stronger principles for neutral and unbiased measurement and the application of expert judgment

Relevant for Question 3 – Determining the NRRE and Question 5 – Risk mitigation objective and benchmark derivatives

15. Subject to the IASB clarifying the definition of unexpected changes, the Committee has concerns about the treatment of "unexpected changes" under paragraph 7.4.6, particularly the potential for unwarranted earnings volatility arising from changes in estimates during stress events.

16. RMA represents a step change in model risk. The use of expected repricing risk exposures means earnings will become more sensitive to behavioural assumptions around deposit stability, prepayment rates and default expectations, and to judgment around future transactions. The requirement in paragraph 7.4.6 to adjust benchmark derivatives for unexpected changes will require banks to develop new models, assumptions and definitions that go beyond existing hedge accounting and risk management practices. These will directly affect earnings through the "lower of" test in paragraph 7.4.8. The Committee welcomes the requirement to use "reasonable and supportable information". However, the Committee believes that the use of well governed and consistently applied expert judgment will also be crucial to achieve faithful representation and support high-quality implementation of RMA. This is particularly relevant in stress, where reasonable and supportable information may not be readily available, forecasts may be subject to high uncertainty and risk management decisions may be informed by sensitivity analysis as point estimates become less decision-useful.

17. The Committee recommends that the IASB strengthen the standard to ensure that: (a) the measurement of the NRRE (under paragraph 7.2.9) and of unexpected changes (under paragraph 7.4.6) reflects unbiased and neutral estimates; (b) where models and data are insufficient, entities shall apply well governed expert judgment to achieve neutral and unbiased estimates that faithfully represent the bank's exposure to repricing risk; and (c)

Centralbahnplatz 2
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email@bis.org www.bis.org

the standard provides clear principles for such judgments to support robust model risk governance frameworks, as well as consistent auditor challenge and comparability across entities.

18. The Committee believes it is important that RMA faithfully represents the effects of risk management activities over time. In particular, RMA should provide decision-useful information about the expected effect of derivatives on repricing risk during uncertainty, and their actual effect as uncertainty resolves. Forecast behavioural assumptions, such as core deposit stability, will be subject to heightened uncertainty in stress, and require frequent updates to reflect current conditions. As currently drafted, paragraph 7.4.6 risks introducing asymmetric outcomes, particularly in stress. Paragraph 7.4.6 requires benchmark derivatives to be adjusted for unexpected changes in underlying portfolios that reduce the NRRE to below the risk mitigation objective. This implies that benchmark derivatives cannot be adjusted if subsequent forecasts or outcomes show the NRRE exceeds the risk mitigation objective.

19. Adverse changes in forecasts may trigger immediate adjustments to benchmark derivatives, with potential earnings impacts. However, subsequent favourable changes in forecasts would not be treated symmetrically. This creates a risk that forecasting errors at the onset of a shock, when model risk and data limitations are greatest, can cause permanent earnings effects for some banks, even if conditions subsequently improve. Such asymmetrical effects would introduce directional bias that could adversely affect market confidence, weaken alignment with how banks actually monitor and manage risk, and risk potentially procyclical effects in stress. This would also be inconsistent with the broader IFRS 9 framework, where forward-looking estimates are updated to reflect current conditions and outcomes over time.

20. The Committee also notes a potential timing mismatch in the current proposals, created by the combination of paragraphs 7.2.5, B7.2.16, 7.2.4 and B7.2.4–B7.2.5. Expected changes in customer behaviour (eg deposit outflows) are reflected immediately when they are "expected to occur", while certain mitigating actions (eg asset sales) may only be recognised when "highly probable".

21. The Committee recommends that the IASB clarify that mitigating actions specified in properly governed, approved and executable contingency plans can be considered "highly probable" when unexpected events that would trigger those actions become expected. This would permit banks to reflect realistic assumptions about both expectations of customer behaviour and the mitigating actions that banks would take in response, to avoid accounting outcomes that do not align with how banks actually manage risk in stress events.

22. The Committee also recommends a symmetrical approach where such adjustments should be updated in either direction, so that benchmark derivatives continue to reflect current conditions and expectations. The aim is to ensure that updates to earlier forecasts are not carried forward where subsequent information indicates that the NRRE was previously underestimated and to avoid outcomes where deterioration in outlook is reflected promptly but subsequent improvement is not. Such a symmetrical approach should be grounded in faithful representation of the underlying NRRE and not introduce room for manipulation.

Centralbahnplatz 2
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Clearer guidance on how credit risk on loans should be reflected in RMA

Relevant to Question 3 – Determining the NRRE and Question 5 – Risk mitigation objective and benchmark derivatives

23. The Committee notes that the proposals do not address how the effects of expected defaults and recoveries on loans should be reflected in determining NRRE. In particular, it is unclear whether increases in expected defaults would be treated as "unexpected changes" under paragraph 7.4.6. The Committee recognises this is complex. A material increase in defaults on loans can alter the repricing profile of portfolios. However, forecasts of expected defaults and recoveries are often uncertain, and it is hard to reliably measure their effect on repricing risk without complex and costly modelling. If RMA is overly sensitive to customer defaults, it could lead to unwarranted earnings volatility in credit stress that may affect banks' ability to continue to lend to the economy.

24. In addition, it is important that RMA is coherent and compatible with existing IFRS requirements for measuring effective interest rate (EIR) and expected credit losses (ECL). For example, overly simplistic approaches could result in defaulted loans being removed from the NRRE prematurely while interest on those loans continues to be recognised in earnings, creating potential timing mismatches. The Committee notes the IASB has launched a project to review the treatment of EIR and encourages the IASB to ensure RMA and EIR models are coherent and compatible.

25. The Committee believes the absence of guidance creates risks of: (a) inconsistency, where entities with similar economic exposures adopt divergent accounting approaches for the treatment of credit risk; (b) cliff edge effects, where banks excluding credit risk from NRRE see more stable earnings initially, but suffer stronger cliff edge effects later when losses increase at the point of heavy write-offs, potentially amplified by more conservative accounting treatments being adopted in stress; and (c) accounting mismatches, if repricing effects are recognised for RMA and ECL purposes at different times.

26. The Committee recommends that the IASB provide targeted guidance to support a consistent and proportionate approach to credit risk across entities, including clarifying: (a) whether credit-impaired financial assets should be included in NRRE; and (b) how entities should allocate cash flows to time bands or adjust expected repricing dates for the underlying portfolios to reflect changes in default or recovery expectations.

27. In particular, the Committee recommends the IASB clarify the application of paragraphs 7.2.5–7.2.6 by introducing a rebuttable presumption that, once financial assets become credit-impaired, they no longer contribute to NRRE. This is because the expected timing and amounts of cash flows are typically dominated by credit-related factors unrelated to the mitigated rate. The presumption could be rebutted where an entity can demonstrate, using reasonable and supportable information available without undue cost or effort, that the effect of some or all of those assets on NRRE remains reliably measurable on a portfolio basis.

Centralbahnplatz 2
CH-4002 Basel, Switzerland
Tel: +41 61 280 8080
email@bis.org www.bis.org

Clarity that assumptions or models used for risk management may need to be adjusted for RMA purposes

Relevant to Question 3 – Determining the NRRE and Question 5 – Risk mitigation objective and benchmark derivatives

28. The Committee supports the overall approach in paragraph 7.2.9 that requires the NRRE to be determined consistently with how the bank makes risk management decisions, in order to better reflect how entities manage repricing risk in the financial statements. Closer alignment with risk management could deliver important benefits, including reducing unnecessary reporting burdens, improving transparency for investors and strengthening the involvement of risk management functions in financial reporting.

29. The Committee also welcomes the IASB's recognition that consistency with risk management does not mean full alignment. For example, some adjustments are necessary to meet the objective of RMA, including scope adjustments such as the exclusion of fair value through profit or loss instruments under paragraph 7.2.1.

30. The Committee notes that the requirement for the RMA model to be consistent with risk management creates important links to regulatory interest rate risk in the banking book (IRRBB) models, which may provide an important starting point for many banks in applying RMA. While this would be a positive development overall, this raises two concerns. First, IRRBB models are designed to inform supervisory and management judgments, and may include assumptions that fit prudential objectives but do not meet accounting objectives or would lead to bias. For example, supervisors in some jurisdictions may impose prudent caps on the behavioural repricing date of non-maturity deposits for certain IRRBB purposes. Second, the requirement for consistency with risk management could be interpreted as imposing the use of the same modelling assumptions, without consideration of whether adjustments are required to achieve the objectives of RMA. In that case, banks may be incentivised to make opportunistic changes to their behavioural assumptions in IRRBB models, driven by accounting objectives, which would impair the prudential relevance of those models.

31. The Committee recommends that the IASB clarify, in the application guidance to paragraph 7.2.9, that assumptions or models used for regulatory purposes, including those developed for IRRBB assessments, may need to be adjusted when applied for RMA purposes. This ensures faithful representation, and resulting accounting outcomes that are neutral, unbiased and auditable. The IASB should enable users of financial statements to clearly understand the extent of consistency and divergence between RMA and underlying risk management practices, but the implementation of RMA should not indirectly impose additional IRRBB reporting or auditing burden.