
IASB[®] meeting

Date	June 2024
Project	Dynamic Risk Management
Topic	Presentation requirements
Contacts	Alev Halit Ongen (alev.halitongen@ifrs.org)
	Zhiqi Ni (zni@ifrs.org)
	Matthias Schueler (mschueler@ifrs.org)
	Riana Wiesner (rwiesner@ifrs.org)

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

Introduction

1. The purpose of this paper is to analyse feedback from informal outreach and ask the IASB for a tentative decision on the proposed presentation requirements of the Dynamic Risk Management (DRM) model.
2. This paper is structured as follows:
 - (a) [staff's recommendations and the question for the IASB](#);
 - (b) [a reminder of IASB's tentative decisions](#);
 - (c) [outreach feedback](#);
 - (d) [staff analysis](#); and
 - (e) [conclusion](#)
3. This paper discusses presentation of amounts arising from the application of the DRM model, and does not discuss:
 - (a) the recognition, measurement and presentation of the financial instruments included in current net open risk position (CNOP) because the DRM model

-
- does not alter the recognition and measurement requirements for these items and their presentation in the statement of financial position;
- (b) presentation of interest revenue and interest expense in the statement of profit or loss, recognised using the effective interest method relating to the financial assets and financial liabilities included in the CNOP; or
 - (c) the classification, measurement or presentation of designated derivatives:
 - (i) Designated derivatives are measured at fair value through profit or loss in the statement of financial position, as discussed in [Agenda Paper 4A](#) and tentatively agreed by the IASB in its May 2022 meeting.
 - (ii) The IASB tentatively decided in its [April 2019](#) meeting that the DRM model will not require presentation of the designated derivatives in a separate line item in the statement of financial position; but this information will be clearly communicated to users of the financial statements in the notes to the financial statements.

Staff's recommendations and the question for the IASB

- 4. Based on the staff analysis included in this paper, the staff recommend requiring:
 - (a) the unwinding of the DRM adjustment that is recognised during the reporting period to be presented, as a net amount, in a separate line item within the net interest income subtotal in the statement of profit or loss;
 - (b) any misalignment arising during the reporting period to be presented together with the changes in the fair value (fair value gains or losses) of other derivatives; and
 - (c) the DRM adjustment to be presented, as a net amount, in a separate line item in the statement of financial position at the end of the reporting period.

Question for the IASB

1. Do the IASB members agree with the staff's recommendations as summarised in paragraph 4 of this paper?

A reminder of IASB's tentative decisions

Recognition and measurement

5. In its [May 2022](#) meeting, the IASB tentatively decided that the 'DRM adjustment' is recognised in the statement of financial position, representing the extent to which the designated derivatives mitigate (ie reduce) the variability in both the fair value of, and the net interest income from an entity's risk mitigation intention. The latter is achieved as the DRM adjustment unwinds over time and is recognised in the statement of profit or loss.
6. In the same meeting, the IASB tentatively decided that the DRM adjustment is recognised as the lower of:
 - (a) the cumulative gain or loss on the designated derivatives from the inception of the DRM model; and
 - (b) the cumulative change in the fair value (present value) of the risk mitigation intention attributable to repricing risk (that is due to changes in interest rates) from inception of the DRM model. This would be calculated using the benchmark derivatives as a proxy¹.
7. The amount deferred in the DRM adjustment in the statement of financial position will then unwind and be recognised in the statement of profit or loss (the 'unwinding of the DRM adjustment').

¹ 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 the net interest income or the fair value of underlying items in the current net open risk position.

-
8. At the IASB meeting in [February 2023](#), the IASB tentatively decided that any excess of the DRM adjustment over the present value of an entity's CNOP (referred to as a 'capacity assessment') is recognised in the statement of profit or loss in the period of the assessment (see [Agenda Paper 4B](#) of the IASB's February 2023 meeting). In Agenda Paper 4A of this meeting, the IASB will further consider this capacity assessment to ensure that the DRM adjustment is not recognised at an amount higher than the expected future economic benefits.
9. In its [June 2018](#) meeting, the IASB tentatively decided that if an entity discontinues the DRM model, and the cash flows from the underlying financial assets and financial liabilities still exist and/or future transactions are still expected to occur, then the amount recognised as the DRM adjustment would continue to unwind and be recognised over time in the statement of profit or loss. Since the IASB will redeliberate circumstances that might lead to discontinuation of the DRM model at a future date, the tentative decision made in June 2018 regarding what might constitute a discontinuation might be revisited, taking into account any subsequent refinements made to the DRM model.

Presentation and disclosure

10. In its [April 2019](#) meeting, in regard to the presentation requirements in the statement of profit or loss, the IASB tentatively decided that²:
- (a) the aligned portion of the designated derivatives (that is recognised in the statement of profit or loss during the reporting period, ie the unwinding of the DRM adjustment) will be communicated in a way that makes it clear that it is related to interest income and interest expense; and presented as a separate line item in the statement of profit or loss;

² In the same meeting, the IASB had tentatively decided that the DRM model will not require presentation of changes in fair value of designated derivatives in a separate line item in other comprehensive income (OCI); but this information will be clearly communicated to users of the financial statements in the notes to the financial statements. Subsequently, the IASB further refined the DRM model and tentatively decided that the DRM adjustment is presented in the statement of financial position instead of OCI. Therefore, the IASB's tentative decision of April 2019 regarding OCI presentation is no longer relevant.

- (b) the misaligned portion of the designated derivatives will be communicated in a way that makes it clear that it is not related to interest income, interest expense, and the aligned portion; and
- (c) the DRM model will not require presentation of the misaligned portion in a separate line item in the statement of profit or loss; but it will be clearly communicated to users of financial statements in the notes to the financial statements. The notes will specify the line item in profit or loss in which the misalignment is presented.

Outreach feedback

11. During March–April 2024, the staff and some IASB members conducted informal outreach meetings with a diverse group of organisations from across a number of jurisdictions, representing users of financial statements (including banking analysts from both buy-side and sell-side institutions and credit rating agencies) and some preparers from the banking industry. We have met with 17 stakeholders in total, 11 representing users of financial statements, 6 representing preparers from the banking industry. Subsequently, we have also met with a few organisations representing banks. Please refer to Agenda Paper 4C of this meeting for further details on the geographical composition of the users of financial statements we have spoken with during the initial informal outreach.
12. Almost all who participated in the informal outreach meetings confirmed that, the current hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments* do not adequately represent an entity’s dynamic interest rate risk management activities. Many entities resort to using proxy designations of the hedged item to account for dynamic interest rate risk management activities and this often results in *lack of transparency* in the financial statements about how an entity manages its interest rate risk. These participants explained that it is often very difficult to gauge from the information included in an

- entity's financial statements how sensitive the entity's net interest income is to the repricing risk.
13. Having acknowledged this, both the users of financial statements and the preparers generally supported the DRM project and its objectives. They said that the current DRM model is a step forward in providing useful information to the users of financial statements that will enable a better understanding of:
 - (a) an entity's interest rate risk management strategy and how it is applied to managing interest rate risk, in particular repricing risk;
 - (b) how an entity's interest rate risk management activities might affect the amount, timing and uncertainty of future cash flows; and
 - (c) the effect that applying the DRM model has had on an entity's financial position and financial performance.
 14. Currently, some entities include the accrual element of the effective hedging instruments in the 'interest income' or 'interest expense' line items that form the 'net interest income (NII)' subtotal in the statement of profit or loss. In addition, some of these entities also provide a more granular breakdown of these line items in the notes to the financial statements, showing the amounts recognised in NII relating to hedging instruments separately.
 15. Reflecting on this, almost all users of financial statements who took part in this informal outreach expressed a strong desire for information that enables them to analyse an entity's NII by source or driver. For example, they said that presenting the unwinding of the DRM adjustment separately from interest income and interest expense in the statement of profit or loss would provide useful information. Being able to distinguish the components of NII between net interest income and expense arising from the associated financial assets and financial liabilities, and the 'protection/benefit' from unwinding of the DRM adjustment in the form of reduced NII variability (in other words, 'before' and 'after' DRM activities) would allow

-
- users of financial statements to understand how much an entity relies on the use of derivatives to achieve its current NII and maintain a stable NII in the future periods.
16. Some users of financial statements who took part in the outreach meetings suggested that a net interest margin resulting from a natural hedge (ie when an entity's interest rate risk exposure from its financial assets and financial liabilities are naturally matched without the use of derivatives) is more likely to be maintained, than the interest margin resulting from an economic hedge through the use of derivatives.
 17. A few investors said that another reason they are interested in such a distinction is because derivatives are usually leveraged products (ie they expose the entity to the changes in market factors with relatively smaller or no initial investment).
 18. Although most users of financial statements acknowledged that the DRM adjustment would be recognised in the statement of financial position, not many commented on its presentation. However, users of financial statements generally asked for information that would enable them to understand the impact of DRM adjustment on an entity's current and future economic resources, and how this adjustment is expected to unwind over time and contribute to mitigating NII variability in the future.
 19. Preparers on the other hand, did not have specific comments during the outreach regarding the presentation of the amounts arising from DRM model in the primary financial statements. However, they asked that the IASB takes a balanced approach to developing the presentation requirements, considering the costs and benefits of any proposed requirements.

Staff analysis

20. The staff analysis in this paper is focused on the presentation of amounts arising from the DRM model in the statement of profit or loss and other comprehensive income, and the statement of financial position³.

Statement of profit or loss and other comprehensive income

The unwinding of the DRM adjustment

21. The IASB tentatively decided in [April 2019](#) as noted in paragraph 10(a) of this paper that the unwinding of the DRM adjustment will be communicated in a way that makes it clear that it is related to interest income and interest expense; and presented as a separate line item in the statement of profit or loss.
22. As discussed in [Agenda Paper 4A](#) for the February 2022 meeting, stakeholders told us that one of the key risk management objectives is the mitigation of NII variability arising from changes in interest rates.
23. Therefore, in the staff's view, presenting the unwinding of the DRM adjustment, within the NII subtotal in the statement of profit or loss would make it clear that it is related to interest income and interest expense, and would present the results of an entity's risk management activities in a manner that is consistent with the underlying economic activity that is explained in paragraph 5 of this paper.
24. Because the DRM model is focused on managing the interest rate sensitivity of NII generated by all the items included in the CNOP, in the staff's view, the unwinding of the DRM adjustment will have to be presented as a *net* number. Separating the designated derivatives into components based on their receive or pay legs, and allocating each leg to either interest income or interest expense without a basis would not reflect a fair presentation of the economic outcome of an entity's DRM activities.

³ In the statement of changes in equity, the profit or loss effects of the DRM adjustment would be included as part of the 'total comprehensive income for the reporting period' line item. In addition, the DRM adjustment is an accounting adjustment and therefore a non-cash item, so it does not affect the statement of cash flows directly.

-
25. As discussed in paragraph 15 of this paper, users of financial statements want to be able to identify the unwinding of the DRM adjustment separately from an entity's interest income or interest expense, and be able to understand how much an entity relies on using derivatives to stabilise and achieve its current NII. This is useful information because it has predictive value for estimating an entity's future financial performance.
 26. The staff agree with this feedback that being able to distinguish the unwinding of the DRM adjustment from the interest income or interest expense would enhance the transparency of the information provided, and enable users of financial statements to better analyse and understand the impact of an entity's risk management activities on its current and future economic resources.
 27. In April 2024, the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements*, which replaces IAS 1 *Presentation of Financial Statements* and becomes effective from 1 January 2027 onwards. It is anticipated that the finalised DRM Accounting Standard will be effective after this date, and entities will apply this standard in conjunction with the requirements in IFRS 18.
 28. Applying paragraph 24 of IFRS 18, entities that provide financing to customers as a main business activity, such as banks, would continue to present NII as an additional subtotal (as an equivalent of gross profit) in their statement of profit or loss under the operating category, because doing so would provide a useful structured summary of a bank's income and expenses.
 29. An entity, applying IFRS 18, is required to apply judgement when determining whether to disaggregate items in the statement of profit or loss, based on an assessment of whether the items have characteristics that are shared (similar characteristics) or characteristics that are not shared. Paragraph B78 of IFRS 18 explains that such characteristics might include nature, function (role) within the entity's business activities and measurement basis.

-
30. The nature of interest income or interest expense is different to that of the unwinding of the DRM adjustment. Interest income or interest expense typically represents compensation receivable or payable by an entity for time value of money and basic lending risks including credit risk, interest rate risk, and prepayment risk before any risk management activities, whereas the unwinding of the DRM adjustment represents the extent to which the entity has been able to mitigate repricing risk. The DRM adjustment is derived based on cash flows relating solely to the extracted managed interest rate and does not include any credit or liquidity risk premiums. Therefore, the unwinding of the DRM adjustment reduces (ie provides protection against) the variability in NII arising from changes in the managed interest rate, which is different to interest income and interest expense generated by the underlying financial assets and financial liabilities.
31. The measurement basis of the interest income or interest expense recognised in the statement of profit or loss is also different from that of the unwinding of the DRM adjustment. Interest income or interest expense is recognised (and measured) using the effective interest method, whereas the periodic unwinding of the DRM adjustment measures the extent to which the dynamic interest rate risk management activities mitigated the entity's NII variability.
32. In the staff's view, the IASB's tentative decision of presenting the unwinding of the DRM adjustment in a separate line item (within the NII subtotal) would be necessary for the statement of profit or loss to provide a useful structured summary of an entity's income and expenditure, as per the requirements in paragraphs 24 and 41(c) of IFRS 18. In other words, users of the financial statements would be able to:
- (a) have an understandable overview of the entity's NII and its components;
 - (b) make comparisons between entities that apply the DRM model, and those that do not, and between reporting periods for the same entity⁴; and

⁴ In its [July 2019](#) meeting, the IASB tentatively decided that the application of the DRM model would be optional however, the IASB might redeliberate this decision at a future meeting.

- (c) identify whether they might wish to seek additional information on the unwinding of the DRM adjustment in the notes to the financial statements.
33. Consequently, the IASB’s tentative decision of presenting the unwinding of the DRM adjustment (ie the aligned portion of the designated derivative) separately from interest income and interest expense in the statement of profit or loss as illustrated in Figure 1 of this paper would be consistent with the disaggregation requirements of IFRS 18. Therefore, in the staff’s view, the IASB’s tentative decision of April 2019 remains appropriate.

Figure 1: Proposed presentation for Consolidated Statement of Profit or Loss and Other Comprehensive Income

Bank X Group Plc			
Consolidated Statement of Profit or Loss and Other Comprehensive Income			
	Notes	20X2 CU'000	20X1 CU'000
Interest income	x	XXX	YYY
Interest expense	y	XXX	YYY
Unwinding of the dynamic risk management adjustment	z	XXX	YYY
Net interest income		XXX	YYY
...			
Operating profit		XXX	YYY
...			

34. In the staff’s view, even if a separate line item presentation is not required, an entity applying IFRS 18 would likely conclude that the unwinding of the DRM adjustment needs to be presented separately because such presentation is necessary for providing a useful structured summary of an entity’s income and expenses. However, we believe that a specific presentation requirement for the DRM model would signal to entities

that the IASB intends for the separate line item presentation of the unwinding of the DRM adjustment.

35. Nonetheless, as per the requirements in paragraph 23 of IFRS 18, an entity does not have to present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary, even if the final requirements of the DRM Accounting Standard contain a list of specific required line items or describe the line items as minimum requirements.
36. For entities applying the DRM model, for the statement of profit or loss to provide a useful structure summary of its income and expenses, the staff envisage cases, in which separate presentation of the unwinding of the DRM adjustment would not be necessary, to be rare (for reasons explained in paragraphs 30–32 of this paper). Even if the unwinding of the DRM adjustment is not presented separately, if material, an entity would have to disclose it in the notes to the financial statements as per the requirements in paragraphs 41 and 42 of IFRS 18.
37. The amount of the unwinding of the DRM adjustment in each reporting period would be readily available to entities because of the recognition and measurement requirements of the DRM model, therefore the staff expect that costs associated with providing this information in a separate line item in the statement of profit or loss would not exceed the benefits to users of financial statements.
38. When applicable, in the notes to the financial statements, an entity would be expected to provide a more granular breakdown of the amount included in the unwinding of the DRM adjustment, for example per each currency DRM model. Please see Agenda Paper 4C of this meeting for the analysis of potential disclosure requirements.

Misalignment

39. In the DRM model, the misaligned portion captures the effects of the imperfect alignment on the entity's current and future economic resources to the extent the designated derivatives do not achieve the entity's risk mitigation intention. Because

the recognition and measurement requirements of the DRM model are based on a ‘lower of’ assessment, misalignment amounts result from ‘over mitigation’ rather than ‘under mitigation’. In other words, misalignment will only be reported in the statement of profit or loss to the extent that the change in cumulative fair value of the designated derivatives is greater than that of the benchmark derivatives.

40. In the staff’s view, the IASB’s tentative decision of [April 2019](#), as summarised in paragraph 10(b) remains appropriate. It would not be appropriate for any misalignment, representing the changes in the fair value of the designated derivative that has not achieved the objective of mitigating repricing risk, to affect an entity’s NII.
41. In the staff’s view, it would be appropriate to include any misalignment in the same line item as the fair value gains or losses arising from an entity’s other derivative instruments. This is because the characteristics of the misaligned portion of the designated derivatives are not different from the characteristics of any other derivative instrument in terms of nature, function, measurement and measurement uncertainty. Therefore, the IASB’s tentative decision of [April 2019](#), as summarised in paragraph 10(c) of this paper, remains appropriate.
42. However, in the staff’s view, nature and source of any misalignment related to the DRM model would have to be communicated to users of financial statements in the notes to the financial statements. The notes must specify in which line item in the statement of profit or loss such misalignment is presented as per the requirements in paragraph 114 of IFRS 18.
43. As discussed in paragraph 8 of this paper, the purpose of the capacity assessment is to ensure that amounts are not recognised as a DRM adjustment in the statement of financial position when the economic benefit in the underlying items is no longer expected to be realised (or have been realised early) due to unexpected changes in the CNOP. Therefore, in the staff’s view, the amount recognised in the statement of profit or loss resulting from a capacity shortfall could not be part of an entity’s NII.

-
44. Because this amount has no impact on the entity's NII, a key subtotal for the users of the financial statements based on the outreach feedback, its separate presentation is not necessary for the statement of profit or loss to provide a useful structured summary of the entity's income and expenses. To an extent, the profit or loss arising from a capacity shortfall is akin in nature to a misalignment (ie it is not providing future protection against NII variability), therefore, it would be appropriate for an entity to include this amount in the same line item as the fair value gains or losses arising from an entity's other derivative instruments. An entity might provide additional information to explain this amount in the notes to the financial statements.

Statement of financial position

45. As discussed in [Agenda Paper 4A](#) of the IASB's May 2022 meeting, recognising the DRM adjustment in the statement of financial position is a departure from the Conceptual Framework in regard to the definition of an asset or a liability. However, the IASB tentatively agreed that it may be justified in this case to ensure accounting for the DRM model provides useful information to the users of financial statements about the effectiveness of an entity's dynamic risk management activities and the nature, timing and uncertainties of future cash flows.
46. Furthermore, when the DRM adjustment is recognised in the statement of financial position, users of financial statements would be provided with direct information about how successful designated derivatives are, in mitigating repricing risk and providing the entity with a protection/benefit in the form of reduced variability from both earnings (ie a stable NII) and economic value (ie protection to the fair value of underlying items in the CNOP) perspectives.
47. For the same reasons discussed in paragraph 24 of this paper, the DRM adjustment will also have to be presented as a *net* amount (either as an asset or a liability) in the statement of financial position.
48. The staff do not think that presenting the DRM adjustment as a separate line item would contradict the requirements in IFRS 18. Paragraphs 24 and 41(c) of that

Accounting Standard require an entity to present additional line items in the statement of financial position if doing so is necessary to provide a useful structured summary of the entity's assets, liabilities and equity. As per the requirements in paragraph B109 of IFRS 18, an entity uses its judgement to make this determination based on an assessment of whether the items have characteristics that are shared or characteristics that are not shared.

49. The DRM adjustment has a specified function (role) within the entity's business activities. It reflects the effects of an entity's interest rate risk management activities, and it is unique to the entity's risk management strategy. Therefore, its separate presentation in the statement of financial position will avoid distortion of the comparability between entities applying DRM model and those that are not, and help provide users of financial statements with a useful structured summary of an entity's financial position.
50. Furthermore, because the DRM adjustment does not meet the definition of an asset or a liability as per the Conceptual Framework, it is different from an entity's other assets or liabilities. The DRM adjustment also has a different measurement basis (see paragraph 6 of this paper), to an entity's other financial assets and financial liabilities. Therefore, in the staff's view, it is necessary to present the DRM adjustment in a separate line item in the statement of financial position.
51. Paragraph 96 of IFRS 18 state that an entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 99–102 of that Accounting Standard except when a presentation based on liquidity provides a more useful structured summary. When that exception applies, an entity shall present all assets and liabilities in order of liquidity. An entity applying DRM model shall present the DRM adjustment in its statement of financial position, applying these requirements.
52. For example, as noted in paragraph B91 of IFRS 18, for some entities, such as financial institutions (eg banks), a presentation of assets and liabilities in increasing or

decreasing order of liquidity provides a more useful structured summary than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

53. In addition, similar to the unwinding of the DRM adjustment presented in the statement of profit or loss, when applicable, an entity would be expected to provide a more granular breakdown of the DRM adjustment, for example per each currency DRM model in the notes to the financial statements. Please see Agenda Paper 4C of this meeting for analysis of potential disclosure requirements.
54. As explained in paragraph 35 of this paper, an entity does not have to present DRM adjustment as a separate line item in its statement of financial position even if it is required by the DRM Accounting Standard, if doing so is not necessary for the statement to provide a useful structured summary of the entity's assets, liabilities and equity. The staff envisage such cases to be rare for reasons explained in paragraphs 49–50 of this paper.
55. The DRM adjustment carried forward at the end of each reporting period would be readily available to entities because of the measurement requirements of the DRM model, as discussed in paragraph 6 of this paper. Therefore, the staff expect that costs associated with providing this information in a separate line item in the statement of financial position would not exceed the benefits to users of financial statements.

Conclusion

56. To provide users of financial statements with transparent and useful information about an entity's dynamic interest rate risk management activities and the impact of such activities on an entity's current and future economic resources, the staff recommend requiring:
 - (a) the unwinding of the DRM adjustment (representing the protection/benefit achieved in the form of reduced net interest income (NII) variability during the

- reporting period) to be presented, as a net amount, in a separate line item within the net interest income subtotal in the statement of profit or loss;
- (b) any misalignment arising during the reporting period to be presented together with the changes in the fair value (fair value gains or losses) of other derivatives; and
 - (c) the DRM adjustment to be presented, as a net amount, in a separate line item in the statement of financial position at the end of the reporting period.