

STAFF PAPER

April 2021

IASB® meeting

Project	Dynamic Risk Management (DRM)	
Paper topic	Cover paper	
CONTACT(S)	Iliriana Feka	ifeka@ifrs.org
	Zhiqi Ni	zni@ifrs.org
	Matthias Schueler	mschueler@ifrs.org
	Emilio Maffi	emaffi@ifrs.org
	Riana Wiesner	rwiesner@ifrs.org

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in the IASB® *Update*.

1. Introduction

1. The Board decided to develop the accounting model for Dynamic Risk Management (DRM model) in two phases. The first phase would focus on developing the ‘core areas’ that are central to the model (core model) while the second phase would address areas that are extensions of concepts developed during the first phase. The Board decided to gather external feedback on the core model before deciding whether to progress to the next phase in order to cover the non-core areas.
2. Consistent with the Board’s objectives for the outreach discussed at the October 2019 meeting:
 - (a) the purpose of the outreach was to assess the viability and operability of the core model and whether it will enable banks to better reflect their risk management strategies and activities (risk management view or dynamic risk management) in the financial statements.
 - (b) this round of outreach was done through individual meetings with banks that manage interest rate risk using dynamic risk management strategies (participants). These meetings were conducted in the period from October 2020 to February 2021.

3. Participants provided detailed information on their interest rate risk management strategies and practices as well as voluminous feedback on whether the DRM model would enable banks to better reflect their risk management view. For this reason, the objective for this Board meeting is to summarise the feedback received on topics that are significant to the viability and operability of the DRM model.
4. Depending on the outcome of Board's discussions on these topics, the additional feedback with respect to other topics within the DRM model may be presented at future Board meetings.

2. Structure of this paper

5. This cover paper provides an overview of:
 - (a) the outreach (paragraphs 8-12); and
 - (b) the agenda papers for this meeting (paragraphs 13-14).
6. This paper contains appendix A *Statistical information* which provides analysis of participants by geographic region.
7. The staff will not ask the Board to make any decisions in this meeting but welcomes views, questions or comments on the feedback presented which will help set the direction for the project. The staff will explore potential next steps for the project and present a project plan for the Board's tentative decision at a future meeting.

3. Overview of the outreach

3.1 Participants in the outreach

8. Previous consultations and stakeholder feedback indicated that banks constitute the majority of entities that manage interest rate risk using dynamic risk management strategies and have been the main source of feedback on the operational challenges faced in applying the current macro hedge accounting models. For this reason, the Board focused exclusively on banks for this round of outreach.
9. To assess the viability and operability of the DRM model and whether it will enable banks to better reflect their risk view in the financial statements, the Board decided to perform the outreach through individual meetings with the participants. This was

done for the purpose of obtaining the most direct and bank-specific feedback by also keeping confidential the proprietary information of the participants.

10. Board members and staff conducted outreach with 28 banks. The outreach involved participants from a broad geographical representation (see Appendix B) but also different strategies and banks operating in different economic environments. The outreach included participants that:
 - (a) have different interest rate risk management strategies and risk appetite;
 - (b) operate in different regulatory environments;
 - (c) use different hedge accounting strategies, for example those that primarily apply macro cash flow hedge accounting, portfolio fair value hedge accounting, the carve-out as legislated by the European Commission; and
 - (d) have different balance sheet structures, for example banks that only use term liabilities as part of their risk management strategy, those that use mainly core demand deposits and those that use a combination of funding. This included a few participants that had a decentralised approach to risk management.
11. Participants in the outreach were represented by individuals from both the treasury /risk management function as well as the accounting/finance function with the relevant knowledge of, and experience in, dynamic interest rate risk management.

3.2 Main outreach questions

12. Questions asked during outreach focused on:
 - (a) Participants' risk management strategies, more specifically:
 - (i) how they define their interest rate risk management strategies?
 - (ii) what elements of DRM model align with their risk management strategy? and
 - (iii) how do participants measure and report the performance of their risk management strategy?

- (b) viability and operability of the DRM model, specifically discussing conceptual and operational challenges that could arise with implementation of DRM model; and
- (c) if there are elements of the DRM model that participants think would require Board’s reconsideration in order to achieve the objective of better reflection of risk management view.

4. Agenda papers for this meeting

13. The following table provides details of topics to be discussed at this meeting and the relevant agenda papers:

Topic	Agenda Paper
Executive summary of feedback from outreach	4A
Interest rate risk management strategies—Information from outreach	4B
Feedback summary: Target profile	4C
Feedback summary: Designation of expected cash flows and impact on imperfect alignment	4D
Feedback summary: Recognition of fair value changes in OCI	4E

14. Agenda papers 4A–4E use the following terms to describe the extent to which particular feedback was shared by participants:

Term	Extent of response among respondents
Almost all	all except a very small minority
Most	a large majority, with more than a few exceptions
Many	a small majority or large minority
Some	a small minority, but more than a few
A few	a very small minority

15. Respondents did not always comment on every area of the DRM model. The staff have indicated in the papers if only a small minority of respondents commented on a particular topic.

16. When preparing the papers, the staff have considered whether we received different messages from specific geographic locations. We have indicated so if there was a notable pattern.
17. When preparing the papers, the staff have also considered the nature of the comments and whether they are qualitatively significant to mention despite the number of respondents that may share that view.

Appendix A—Statistical information

- A1. The following is the analysis of participants by geographic region.
- A2. All participants in the outreach were banks that manage interest rate risk using dynamic risk management strategies.

Participants by geographical location

