Purpose of this meeting

1. During our ongoing informal outreach on the DRM model, many stakeholders have told us that illustrations through a series of more complex and realistic scenarios, including accounting implications of such complexities, would help their understanding of the current DRM model. For example, when

   - an entity only partially mitigates interest rate risk; or

   - financial assets and financial liabilities designated in the current net open risk position (CNOP) have notionals which are not the same; or

   - unexpected changes to the CNOP occur during a DRM assessment period.

2. Some stakeholders said that the illustrations provided in the Agenda paper 4B of September 2021 meeting and the walkthrough of illustrative examples as part of the October 2022 DRM webcast series both focused on the use of ‘present value for one basis point (PV01)’ as an entity’s risk metric. These stakeholders would like to understand how an entity designates its risk mitigation intention, constructs its benchmark derivatives, and calculates the DRM adjustments under these complex scenarios, using ‘sensitivity in the net interest income (ΔNII)’ or a related risk metric.
3. In addition, the IASB has also asked the staff to provide further examples of the application of the current DRM model to support stakeholders in their analysis of the model requirements.

4. In Agenda Paper 4A at this month’s meeting, the staff presents an illustration of the designation and application of the DRM model through a series of scenarios based on this feedback. Each scenario adds a level of complexity to the previous one. This paper does not ask for decisions from the IASB.

5. The scenarios illustrated in Agenda Paper 4A are as follows:

   (a) Simple scenarios: CNOP is comprised of a single financial asset and a single financial liability, with aligned notionals:
       
       (i) Scenario 1A: The interest rate risk is fully mitigated in the first reporting period (risk mitigation intention (RMI) is equal to CNOP);
       
       (ii) Scenario 1B: A continuation from Scenario 1A into the second reporting period, however the interest rate risk is only partially mitigated in the second reporting period (RMI is less than CNOP); and
       
       (iii) Scenario 1C: A continuation from Scenario 1B, however during the second reporting period, the entity identifies an unexpected change to its CNOP during the period (eg a revised expectation in the repayment profile of the financial asset).

   (b) Complex scenarios: CNOP is comprised of multiple financial assets and financial liabilities (together, the underlying items):

       (i) Scenario 2: Underlying items designated (including core demand deposits) in the DRM model have the same notionals, and the interest rate risk is fully mitigated;

       (ii) Scenario 3: Underlying items designated in the DRM model have notionals that are not the same and the interest rate risk is fully mitigated; and
(iii) **Scenario 4:** Underlying items designated in the DRM model have notionals that are not the same and the interest rate risk is only partially mitigated; or mitigated in an adjacent repricing period.

6. Agenda Paper 4A does not illustrate the capacity assessment that was discussed by the IASB in Agenda Paper 4B in its February 2023 meeting as this is still subject to further development.

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<th>Question for the IASB</th>
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<tr>
<td>1. Do the IASB members have any comments or questions on the illustrations set out in Agenda Paper 4A?</td>
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