Introduction

1. The objective of the DRM model is to better reflect an entity’s dynamic risk management strategies and activities in the financial statements. The DRM model aims to address several challenges, one of which is the lack of transparency about how risk management activities affect an entity’s current and future economic resources.

2. To date, the IASB’s tentative decisions focused on the recognition and measurement elements of the model. Agenda Paper 4B for this meeting, discusses presentation requirements in the primary financial statements. However, it is impracticable, and sometimes impossible, to communicate all useful information through measurement and presentation. Many of the intended benefits of the DRM model can only be achieved through the additional information an entity discloses in the financial statements.
3 The IASB tentatively decided in July 2019 that the areas of focus for disclosure should be those that assist users of financial statements to:

(a) understand and evaluate an entity’s risk management strategy;
(b) evaluate management’s ability to achieve that strategy;
(c) understand the effect on current and future economic resources (ie the amount, timing and uncertainty of future cash flows); and
(d) understand the effects applying the DRM model have on an entity’s financial statements.

4 The purpose of this paper is to summarise the information needs of the users of financial statements in the context of these focus areas and provide preliminary views on potential disclosure requirements the IASB could consider.

5 This paper is structured as flows:

(a) question for the IASB;
(b) information needs of the users of financial statements;
(c) feedback from the preparers on disclosure requirements; and
(d) preliminary staff views.

Question for the IASB

6 We are not asking the IASB to make a decision on the proposed disclosure requirements at this meeting, but we welcome any questions or views on the summary of feedback and the preliminary staff views in this paper.

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<th>Questions for the IASB</th>
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<td>1. Does the IASB have any questions or views on the feedback on DRM disclosures and the staff analysis in this paper, as set out in paragraphs 7–71?</td>
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Information needs of the users of financial statements

7 Users of financial statements have been supporters of the DRM project and have previously emphasised the importance of having information about entities’ interest rate risk management in the financial statements. Many of them said that for information to be useful, it needs to be descriptive and specific to the entity and should not simply include generic (‘boiler plate’) information.

8 In their comment letters to the 2014 DP, users of financial statements generally reiterated that the current accounting requirements (ie IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments hedge accounting requirements) do not always adequately represent entities’ risk management activities, especially when those activities are dynamic in nature.\(^1\)\(^2\) In their view, an accounting model that achieves better alignment between financial reporting and dynamic interest rate risk management activities would provide more useful information. They were therefore supportive of the IASB’s attempt to develop such a model.

9 Throughout the development of the DRM model, the IASB focused on preparers first to achieve closer alignment with how repricing risk management activities are done and increase the viability and operability of the model.\(^3\)

10 Given the progress the IASB has made on the various elements of the DRM model, the staff and some IASB members consulted informally with a diverse group of users of financial statements from a number of jurisdictions (as illustrated by the chart).\(^4\) This included banking analysts from both buy-side and sell-side institutions and credit rating agencies. Our discussions focused on the banking industry because, in our view, it is the industry that is mostly affected by dynamic interest rate risk management.

\(^1\) See Agenda Paper 4C of February 2015 IASB meeting.


\(^3\) See paragraph 11 of Agenda Paper 4 of October 2019 IASB meeting.

\(^4\) The geographical split in the chart is based on the main jurisdiction the investor covers, although many of them are international investors and cover entities in other jurisdictions too.
Discussions with users of financial statements mainly focussed on two key questions:

(a) how investors analyse an entity’s interest rate risk management practices and the types of information they use; and

(b) based on the elements of the DRM model, what information investors need about the amounts presented in the financial statements to understand how an entity has applied the DRM model.

We summarised the feedback from these discussions based on the general themes that emerged, in paragraphs 13 to 42 of this paper.

**Need for more useful information**

Almost all investors we spoke with said that understanding a bank’s interest rate risk exposure and net interest income (NII) is a significant part of their analysis. However, currently there is only limited information available in the financial statements that is directly relevant to their analysis. As a result, investors must rely on other sources, such as regulatory capital disclosures, result announcements, or direct enquiries with senior management to obtain the information needed for their analysis.

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5 Examples of such information mentioned by the participants include disclosures on interest rate hedge accounting, and the market risk disclosures relating to interest rate risk, which usually contain some sensitivity analysis.
14 Many investors said there is typically a lack of transparency in the financial statements about how banks manage their interest rate risks, and they often rely on a bank’s past performance to assess how banks would be affected by interest rate movements. Some also commented that many banks would state that they are closely managing their interest rate risk exposure, yet their results show significant variability when the interest rates move.\(^6\) In many cases, investors said they could not obtain sufficient information from the financial statements to reconcile the statements made by management with the bank’s results.

15 Although investors were unified in their need for more useful information, they had different perspectives about what information is important to their analysis and potential areas on which disclosure requirements could focus.

**Area of focus for investors’ analysis**

16 We asked investors which areas of interest rate risk management they usually focus on as a part of their analysis, and what additional information they need from the financial statements to assist with their analysis.

17 Almost all investors said it is important to understand an entity’s interest rate risk management strategy, and how the entity would systematically and dynamically respond to a changing interest rate environment. They said that for this information to be useful to their analysis, they need both qualitative and quantitative information about:

(a) how an entity identifies its interest rate risk exposures;

(b) the sources of interest rate risk exposure; and

(c) how an entity monitors and mitigates its interest rate risk exposures.

\(^6\) This could be the result of, for example, one entity choosing to hedge their short-term risk exposures while another entity focusing only on long-term risk exposures.
Investors also said that for such information to be useful, it must be specific and directly relevant to the entity rather than generic or boiler plate information. They said that entity-specific information would help them better understand what each entity is doing relative to its peers.

With regards to entities’ net interest margins, many investors said that they would find it useful if there is clear information in financial statements that distinguish between the different components of NII, and what the main drivers of the fluctuations in NII between reporting periods are. Based on these discussions, our understanding is that, with regards to NII, investors want to understand the potential drivers for NII variability and how protected (or not) an entity’s net interest margin is against the changes in interest rates.

Many investors said that for banks, the current regulatory capital disclosures, such as the Interest Rate Risk in the Banking Book (IRRBB) disclosures, provide useful insights, including sensitivity analyses on net interest income and economic value of equity (EVE) based on pre-defined scenarios (for example a plus or minus 100 basis points parallel shift in the interest rate yield curve). Investors also find the recent regulatory developments to require inclusion of the effects of non-parallel shifts useful.

Some other investors said that although the IRRBB disclosures still do not provide all the information they need, they refer to these disclosures because there is no better alternative source of information. For example, some highlighted that the IRRBB disclosures are not useful for forecasting future cash flows because they do not include the effects of possible risk management activities in response to potential movements in interest rate.

In addition, some investors said that it would be more useful to disaggregate the banking book between ‘organic’ positions and derivatives, and clearly identify what positions are actively being managed by banks.
Another area that most investors commented on is the information on the amount and timing of the unwinding of the DRM adjustment over the risk management time horizon. While they consider the DRM adjustment (representing fair value changes on the derivatives that are successful in mitigating interest rate risk) in the statement of financial position to be useful information, they also need to understand how the DRM adjustment would affect the statement profit or loss over time.

Some investors specifically welcomed the inclusion of core demand deposits and expected cash flows from prepayable financial assets in the current net open risk position (CNOP). However, in their view, inclusion of these instruments in the entity’s CNOP is more likely to cause unexpected changes that could result in misalignment because an entity’s estimates of expected cash flows are subject to change. Therefore, investors said that it would be important to their analysis, to have an understanding of the internal models and assumptions an entity has used to calculate the interest rate risk exposures of these instruments.

With regards to an entity’s risk limits, investors provided mixed feedback on whether disclosure of the risk limits is needed. Some investors said it would be useful to have information about an entities’ risk limits because that would be an important metric to enable assessing an entity’s risk appetite (ie how much interest rate exposure an entity is willing to tolerate, and how conservative or aggressive an entity’s interest rate risk management approach is). It would also enable them to assess the entity’s potential response to a change in its interest rate risk exposure or the market interest rate environment. Other investors focused less on the risk limits, but more on the risk mitigation outcome in the form of ‘residual risks’ and the effects of the entity’s risk management activities.

Disclosing information in a useful way

Some investors said they often try to obtain a high-level overview of an entity’s overall interest rate risk management activities and identify relevant trends about the extent of interest rate risk an entity mitigates. However, the disclosures provided in
accordance with IFRS 7 Financial Instruments: Disclosures, only apply to those risk exposures for which an entity has elected to apply hedge accounting. In addition, when hedge accounting is applied, the hedge designations are for individual hedges, and therefore do not provide an overall view. For this reason, investors tend not to rely on, or have frequent discussion with, an entity’s management about the hedge accounting disclosures included in the financial statements. However, some investors said that, with the interest rate volatility experienced recently, interest rate hedging has become more prominent and the IFRS 7 disclosures might provide some information on the funding duration of the entity.

27 Overall, investors said they prefer the disclosed information not to be too technical or over-complicated because a large volume of detailed disclosures that involve complex assumptions and methodologies to analyse, might lead to an information overload. However, some acknowledged that pursuing information that depicts a perfect projection of NII would not be possible in practice and therefore their focus is on understanding the drivers (ie sources) of an entity’s NII, and back-testing their predictions against reported results. In general, they are more interested in information that provides early warnings on potential ‘tail risk’; in other words, significant impact to an entity’s NII in worst-case scenarios caused by a rare or systematic event.

28 The challenge, as mentioned by a few investors, is that even when there is some relevant information available, they are scattered around in various places, for example throughout the annual report, the Pillar 3 disclosures of banks, results announcements and other management communications.

29 Furthermore, in many cases, the use of proxy hedging to overcome the current misalignment between the hedge accounting requirements and risk management activities makes it difficult for investors to piece together the relevant information.

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7 Pillar 3 of the Basel framework developed by the Basel Committee on Banking Supervision aims to promote market discipline through disclosure requirements for banks. This means that banks must disclose certain qualitative and quantitative information publicly on a regular basis, either as part of their financial reports or in separate Pillar 3 reports.
Investors were therefore of the view that the DRM disclosures could potentially become the focal point of their interest rate risk analysis going forward.

30. Investors also noted that information about interest rate risk management is not standardised, because different entities have different risk appetites and risk management strategies. Some investors said that ideally, this information would be provided on a comparable basis across entities, although they fully acknowledged that the DRM disclosures would be most useful if the information is provided on an entity- and model specific basis (as discussed in paragraph 18 of this paper).

31. Therefore, investors consider it important to understand which financial assets and financial liabilities (including off-balance sheet items where relevant) are included in the CNOP, as well as what the characteristics of the interest rate exposure (fixed or floating or mixed) and average maturity of items are.8

32. A few investors further commented that disclosures about the misalignment of the DRM model is less important than understanding the composition of the CNOP. While they acknowledged that the magnitude of misalignment provides insights about how effective the entity was in using derivatives to mitigate interest rate risks (and thus have confirmatory value), they are more interested in getting additional information on how future interest rate changes would affect the entity’s performance. In their view, a comprehensive sensitivity analysis of an entity’s future NII or EVE would be more useful in providing predictive value.

33. In conclusion, a few investors said that the DRM disclosures need to focus on the outcome of applying the model (for example, the sensitivity in NII or EVE, or the amount of expected cash flows in the CNOP as determined by the entity’s internal models or assumptions) rather than the detailed processes or assumptions used in achieving that outcome. In their view, not many investors would have the time to review or challenge an entity’s modelling assumptions. For example, with regards to

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8 As part of liquidity risk disclosures, paragraph 39 of IFRS 7 requires that an entity discloses a maturity analysis for financial liabilities (both non-derivative and derivative instruments) however, there is no equivalent requirement for financial assets, except for those held for managing liquidity risk (please see paragraph B11E of IFRS 7).
the modelling of cashflows from core demand deposits, information about the internal models and inputs would not be useful to understand an entity’s risk management activities. It would be more useful if the entity provides information about the extent to which deposits are included in the CNOP as a fixed rate exposure and the average time over which they are managed (ie the duration of the deposit hedge), as those would help investors better understand the entity’s risk management.\(^9\)

**Diversity between jurisdictions**

34 Many investors told us that the quantity and quality of information provided by entities vary significantly across jurisdictions. For example, in some jurisdictions prudential or financial reporting regulators mandate disclosure of additional information beyond what is required by IFRS 7, whereas in other jurisdictions it is common for entities to provide only minimum information. Accordingly, investors face slightly different challenges in performing their analysis, and thus might require different additional information from each entity.

35 Investors said that in their experience, in some jurisdictions (such as Australia and some Asian countries), banks usually do not have significant structural interest rate risk because their assets and liabilities are broadly well-matched (for example, both financial assets and financial liabilities have variable rates, for which the base rate is linked to a risk-free interest rate), or the duration mismatch between financial assets and financial liabilities are short-term in nature and therefore does not create significant exposure to changes in interest rates. In some other jurisdictions (such as Brazil), financial assets and financial liabilities tend to have interest rates with high spreads on top of risk-free interest rates, which makes the movement in benchmark rates less impactful to the overall NII and net interest margin. In contrast, banks in Europe usually rely more heavily on the use of derivatives to achieve their optimal NII profile.

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\(^9\) Some investors also suggested a disclosure of the deposit beta for the deposit included in the CNOP could be a very useful information.
In general, most of the investors said the European banks, in particular UK banks, are more transparent in communicating how interest rate risks are managed. There is more detailed information about structural hedge strategies and deposit compositions available to investors from banks in these jurisdictions, and clearer management explanations about these disclosed data. However, challenges remain with regards to the robustness/validity of the information disclosed, as it is difficult for investors to verify the information provided by the management outside the financial statements prior to getting the actual results. Even after the actual results become available, it is difficult to clearly identify the effects of the dynamic interest rate risk management activities because of the impact from many other factors, not related to movement in interest rates, on the actual results.

A few investors noted that, because they need to rely mostly on management presentations for their analysis of an entity’s interest rate risk exposure, there is a lack of comparability between different jurisdictions due to the use of different terminologies that are being used for describing similar concepts.

Investors noted that, given the importance of interest rate risk management to banks, prudential regulators usually have a strong influence on how interest rate risk is managed by banks in the jurisdictions they supervise. For example, some banks are required to follow a specified response to open interest rate risks (eg to hedge 95% of the organic risk when they arise), while others may have more flexibility to determine their risk mitigation intention and potentially benefit from favourable movements in the interest rate curve. Some investors also mentioned that the regulatory treatment of the DRM adjustment, which could be an asset or a liability in the statement of financial position, and its impact (if any) on a bank’s Common Equity Tier 1 (CET1) ratio might also affect the scope and extent of a bank’s risk management activities.

Cost and commercial sensitivity

We also discussed with investors preliminary concerns shared by some preparers with regards to the cost of providing the potential disclosures of the DRM model and the
potential for requirements to require disclosure of commercial sensitive information (see paragraphs 43–49 of this paper). In general, investors agreed that any proposed disclosure requirements need to achieve a balance between the potential cost to preparers of providing the information and the benefit to users of financial statements.

40 In terms of potential commercial sensitivity, many investors appreciated that there could be proprietary information that is commercially sensitive with regards to an entity’s dynamic risk management activities. Generally speaking, the more granular the disclosures are, the higher is the risk of disclosing commercially sensitive information. However, these investors explained that, in their view, current disclosures could be enhanced with additional useful information without providing commercially sensitive information.

41 In contrast, some investors pointed out that even in this regard, there are jurisdictional differences. For example, in some jurisdictions, investor presentation by banks have been quite detailed in recent years in terms of how banks are managing their interest rate risk exposure, and more transparency about potential impact of their interest rate risk management activities on future NII. On the other hand, for some banks, the decision about interest rate risk management is more of a mechanical process and any changes to the process could be identified relatively quickly and easily.

42 Investors said that, in their view, many elements of the dynamic interest rate risk management might have become less sensitive than previously, and disclosures around those elements would provide useful information to them. For example, disclosure of relevant information such as deposit beta at an aggregated level could still provide useful information without a detrimental effect on commercially sensitivity, and would achieve a balance between transparency and maintaining confidentiality.\textsuperscript{10} Investors emphasised that the current practice of providing limited information about dynamic interest rate risk management might have been developed and accepted because of lack of better alternatives.

\textsuperscript{10} Deposit beta refers to the sensitivity of banks’ deposit rates to changes in market interest rates.
Feedback from the preparers on disclosure requirements

43 During the development of the DRM model, we have discussed the potential disclosure requirements with many preparers. The IASB received lots of useful feedback during the comment period of the 2014 DP, as well as further feedback during the 2020 outreach with preparers.

44 In general, most respondents to the 2014 DP shared the view that robust disclosures are critical, and broadly supported the disclosure themes identified in that DP. Some respondents also suggested disclosure of a sensitivity analysis of NII before and after DRM model and further disaggregation of NII.

45 More recently, the staff also had informal discussions with a limited number of preparers from the banking industry to obtain their preliminary views on some of the disclosure elements identified by investors. We also asked these preparers what information about the DRM model they consider necessary for investors to understand how they are managing interest rate risk.

46 Most of these preparers acknowledged the importance of providing relevant information about how they have applied the DRM model to enable users of financial statements to better understand the effects of their risk management activities. However, some raised concerns about the costs involved in preparing such information, and the risk that some of the required information could potentially be commercially sensitive in nature. For example, some preparers said the residual interest rate risk is considered to be highly sensitive information and should not be considered as a possible DRM disclosure. In their view, a sensitivity-based analysis, similar to those required by the IRRBB disclosures, would be more appropriate.

47 In addition, some preparers said that the DRM disclosure requirements should focus on the effects that an entity’s risk management activities have on the amounts in the financial statements and not on forward-looking risk-based disclosures that would inherently be beyond the boundary of the financial statements.
Some other preparers are of the view that, although not necessarily disclosed in the financial statements, entities already provide a significant volume of information about their interest rate risk management activities. Therefore, in their view, DRM disclosure requirements should leverage from the information currently provided as much as possible, such as the Pilar 3 disclosures. They are concerned that disclosing detailed quantitative information might lead to a disclosure overload and would provide very little useful information to investors. They asked that, when developing DRM model’s disclosure requirements, the IASB balances the need for useful information and the incremental benefits to investors with the costs to preparers of providing the information and commercially sensitive nature of some information.

We have been made aware of the results of a survey conducted by Ernst & Young on behalf of The International Swaps and Derivatives Association (ISDA) that were published in May 2024 and included information provided by banks with regards to potential disclosure requirements. Most of the survey participants were of the view that the DRM disclosures need to be entity specific, and aligned with the entity’s risk management strategy and objectives. They also suggested that the disclosures need to be aligned as far as possible with the prudential frameworks and permit cross-referencing to the relevant IRRBB disclosures and not duplicate information. Consistent with the feedback we gathered during our informal discussions with the preparers, banks who participated in this survey also expressed a view that the requirements should not require disclosure of commercially sensitive information, but they did not specify what they would consider to be commercially sensitive information.

11 A summary of the survey results can be found on ISDA website here.
Preliminary staff views

50 Considering the information needs of the users of financial statements in paragraph 7–42, and the feedback from the preparers in paragraph 43–49, the staff identified a number of potential disclosure items in this staff analysis, and we would welcome further comments on these initial thoughts. We will also continue discussing potential disclosure requirements with stakeholders, including preparers, before asking the IASB to make tentative decisions about the proposed disclosure requirements.

Potential disclosure objectives

51 For those risk exposures for which an entity elects to apply hedge accounting, paragraph 21A of IFRS 7 requires the disclosure of information about:

(a) an entity’s risk management strategy and how it is applied to manage risk;

(b) how the entity’s hedging activities may affect the amount, timing and uncertainty of its future cash flows; and

(c) the effect that hedge accounting has had on the entity’s statement of financial position, statement of comprehensive income and statement of changes in equity.

52 As previously discussed in paragraph 11 of Agenda Paper 4A for the May 2022 meeting, the application of the DRM model should provide information that enable users of financial statements to understand:

(a) an entity’s dynamic interest rate risk management strategy and how it is applied to manage repricing risk;\(^\text{12}\);

(b) how an entity’s dynamic interest rate risk management activities affect the amount, timing and uncertainty of its future cash flows; and

\(^{12}\) 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.
(c) the effect the entity’s dynamic interest rate risk management activities have on the statement of financial position and statement of profit or loss.

53 These disclosure objectives are similar to the objectives for hedge accounting and also the areas of focus for the DRM disclosure requirements summarised in paragraph 3 of this paper. We continue to consider these disclosure objectives to be appropriate.

54 Based on the input from investors and consistent with the current requirements in paragraph 21B of IFRS 7, we are also of the view that:

(a) the required disclosures are provided in a single note or separate section in the financial statements;

(b) information could be incorporated by cross-reference from the financial statements to another statement that is available to users of the financial statements on the same terms as the financial statement and at the same time;

(c) DRM disclosures are provided on a basis that is consistent with how an entity applied the DRM model. For example, if an entity has multiple DRM models because that is how the entity manages interest rate risk in accordance with its risk management strategy (for example the interest rate risk management strategy defines separate risk limits for each currency), the required information is disclosed separately for each DRM model; and

(d) where relevant, the information provided in the notes to the financial statements should enable users of financial statements to identify (and reconcile to) the relevant line item in the primary financial statements to be information in included in.

Disclosure about dynamic interest rate risk management strategy

55 The information that IFRS 7 requires an entity to disclose with regards to its risk management strategy is set out in paragraphs 22A–22C of IFRS 7. The purpose of these disclosures is to enable users of financial statements to evaluate:

(a) how each risk arises;
(b) how the entity manages each risk (for example whether an entity hedges an item in its entirety for all risks or only a risk component of an item and why)

(c) the extent of risk exposures that the entity manages.

56 We think that a similar disclosure requirement with regards to the application of the DRM model would be appropriate. In the context of the DRM model, information about an entity’s risk management strategy should enable users of financial statements to understand for example:

(a) how the entity’s exposure to repricing risk arise including, for example, a description of the underlying financial assets and financial liabilities included in the CNOP and the nature of the repricing risk (fixed vs floating);

(b) the levels at which repricing risk is managed (ie an entity-wide level or lower level);

(c) how the entity identifies, aggregates, monitors and manages its repricing risk including the risk metrics the entity uses and the frequency with which the CNOP and risk mitigation intention is determined; and

(d) the managed rate, time horizon over which repricing risk is mitigated and if the entity is allocating its risk exposures to time buckets, an indication of the time buckets used.

57 We expect that the potential disclosure information discussed in paragraph 56 would be readily available as part of an entity’s dynamic risk management process and we do not expect that providing this information would incur significant additional costs. In addition, in our view, this information also does not include commercially sensitive information as it is similar to the information currently required in IFRS 7 (see paragraph 55).

Disclosure on the amount, timing and uncertainty of cash flows

58 Paragraphs 23A–23F of IFRS 7 set out the information an entity is required to disclose about the amount, timing and uncertainty of future cash flows for each risk
category. This includes quantitative information that enable users of financial statements to evaluate the terms and conditions of hedging instruments and how they affect the future cash flows of the entity.

59 In the context of the DRM model, we would expect the information to be provided about the designated derivatives to be similar to the current IFRS 7 requirements. Information about the designated derivatives provide direct information about the risk management activities. A profile of the timing of the nominal amount of these designated derivatives (eg nominal amount by maturity bucket) and the average fixed rate of these derivatives could enable users of financial statements to understand the extent to which an entity is economically protected from future interest rate movements, and how the DRM adjustment would unwind to profit or loss over time. The DRM disclosures on the designated derivatives would therefore increase the transparency of how an entity has eliminated the variability in economic value of equity or NII.

60 With regards to the CNOP, many users of financial statements said quantitative information about an entity’s interest rate risk exposures and hedged rates would enable them to predict the future performance of the entity. However, most preparers commented that such disclosures could potentially result in the disclosure of forward-looking information that could put them at an unfair disadvantage compared to their competitors who do not apply dynamic interest rate risk management or do not report under IFRS.

61 We note that when developing the hedge accounting disclosure requirements, the IASB acknowledged in paragraphs BC35W and BC35X of the Basis for Conclusions on IFRS 7 that disclosures that focus on the hedged risk (ie hedged item) would potentially provide competitors with insight into an entity’s costing structure. Consequently, the IASB decided not to require information to be disclosed about the total risk exposure (of the hedged items) because of the potential forward looking nature of this information.
We therefore do not think it would be appropriate to require entities to disclose information about the CNOP on a total or residual risk exposure basis. However, the staff think some disclosures about the amount, timing and uncertainty relating to the cash flows of the underlying items (which are used for determining the CNOP) is needed for the DRM model, if such information can be disclosed in a way without jeopardising commercial sensitivity. This would help to address the investors’ request to obtain information from the financial statements, about a bank’s interest rate risk exposure and the source of such interest rate risk exposure.

Such a disclosure could for example be in the form of a sensitivity analysis, showing how an entity’s NII or the fair value of an entity’s assets and liabilities would change as a result of movements in interest rates.

Unlike the disclosures for general hedge accounting requirements which are designed for individual hedges, an entity manages interest rate risk from many different classes of financial instruments holistically and dynamically under the DRM model. In the staff’s view, the aggregate nature of the DRM model, and therefore the aggregate nature of such disclosures would help mitigate the risk of requiring the disclosure of commercially sensitive information. For example, it would be more difficult to infer an entity’s cost structure for a particular banking product from such disclosures.

In addition, we note that paragraph 40 of IFRS 7 already requires an entity to disclose a sensitivity analysis for each type of market risk, and for most entities in the banking industry interest rate risk is one of the most significant market risks. We also understand that most banks are disclosing similar information under the Pillar 3 disclosure requirements without having to disclose commercially sensitive information.
Disclosure of the effects on financial position and performance

Information an entity is required to disclose about the effects of hedge accounting on financial position and performance, is set out in paragraphs 24A–24F of IFRS 7. This includes disclosure of information in a tabular format about the hedging instruments and hedged items such as the carrying amounts, the line items in which these items are included and the accumulated amount of the fair value hedge adjustment or cash flow hedge reserve.

Disclosures about the underlying financial instruments

Although information about an entity’s risk exposures might be useful to the analysis of users of financial statements, the DRM model is ultimately an accounting model that aims to better reflect the effects of an entity’s interest rate risk management activities in its financial position and performance. Therefore, we think that any information about the underlying items that are included in the CNOP, must be provided based on amounts in the financial statements rather than risk-based information, and could be a combination of qualitative and quantitative information.

Information about the financial instruments that are included in determining the CNOP could include:

(a) the carrying amounts at the reporting dates or the notional amounts of unrecognised assets or liabilities;
(b) the line items in the statement of financial position in which the underlying items are included;
(c) the inputs, assumptions and estimation techniques used to determine the expected cash flows; and
(d) information about any hedged exposures that are included in the CNOP;
Disclosure about designated derivatives

69 As discussed in paragraph 59 of this paper, we would expect the potential disclosures for the designated derivatives to be similar to the current requirements for hedging instruments in IFRS 7. We therefore think potential disclosure requirements could include:

(a) the carrying of the designated derivatives;
(b) the line item in the statement of financial position that includes the designated derivatives;
(c) the change in fair value of the designated derivatives used as the basis for measuring the DRM adjustment; and
(d) the nominal amounts of the designated derivatives.

Disclosure about the performance of the DRM model

70 Agenda Paper 4B of this meeting discusses the presentation requirements for the elements of the DRM model in the primary financial statements. Notwithstanding the presentation requirements, we think that more disaggregated information about these amounts would be needed in the notes to the financial statements to enable users of financial statements to understand the effects of the DRM model on the financial statements. In some cases, a reconciliation may be necessary if the entity operates more than one DRM model in accordance with its risk management strategy.

71 Because the DRM adjustment represents the expected benefit/protection to the entity’s future NII and economic value variability, we think information about the DRM adjustment would be needed, in the notes to the financial statements, for users of financial statements to understand the potential effect on future NII and economic value variability. Such information could include:

(a) fair value gains or losses recognised as part of the DRM adjustment during the reporting period and how the entity incorporated the effect of unexpected changes in the CNOP during the period;
(b) the amount of misalignment (both cumulative and the effect in the current reporting period) and the line items in which the misalignment is recognised in the statements of profit and loss;

(c) the expected profile (based on the designated derivatives and benchmark derivatives) for the unwinding of the DRM adjustment into the statement of profit or loss (ie future ‘protection’ against NII variability); and

(d) the amount of any write-down of the DRM adjustment at the reporting date and its expected effect on the unwinding of the DRM adjustment.