

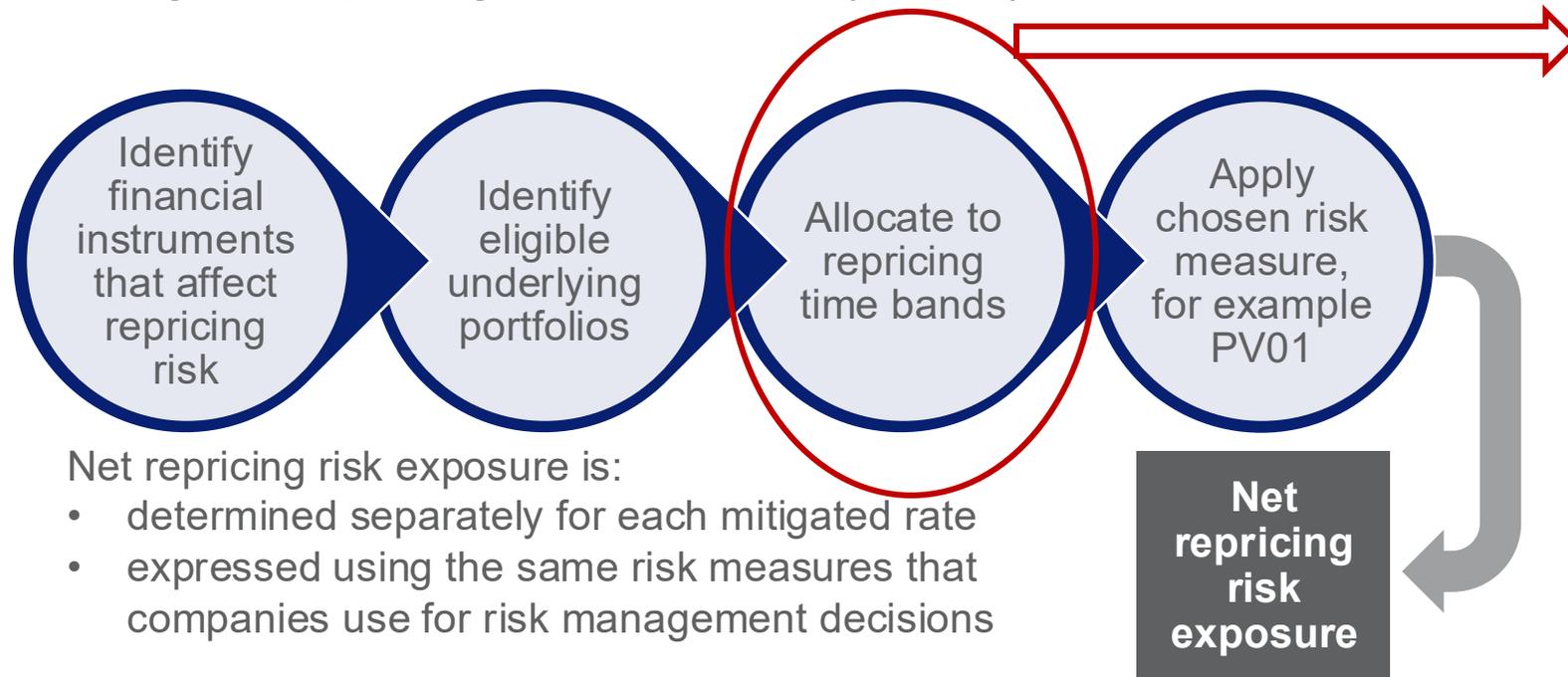
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# Risk Mitigation Accounting

*Explanation on some proposals in the  
Exposure Draft*

# The role of repricing time bands

Determining net repricing risk exposure (NRRE):



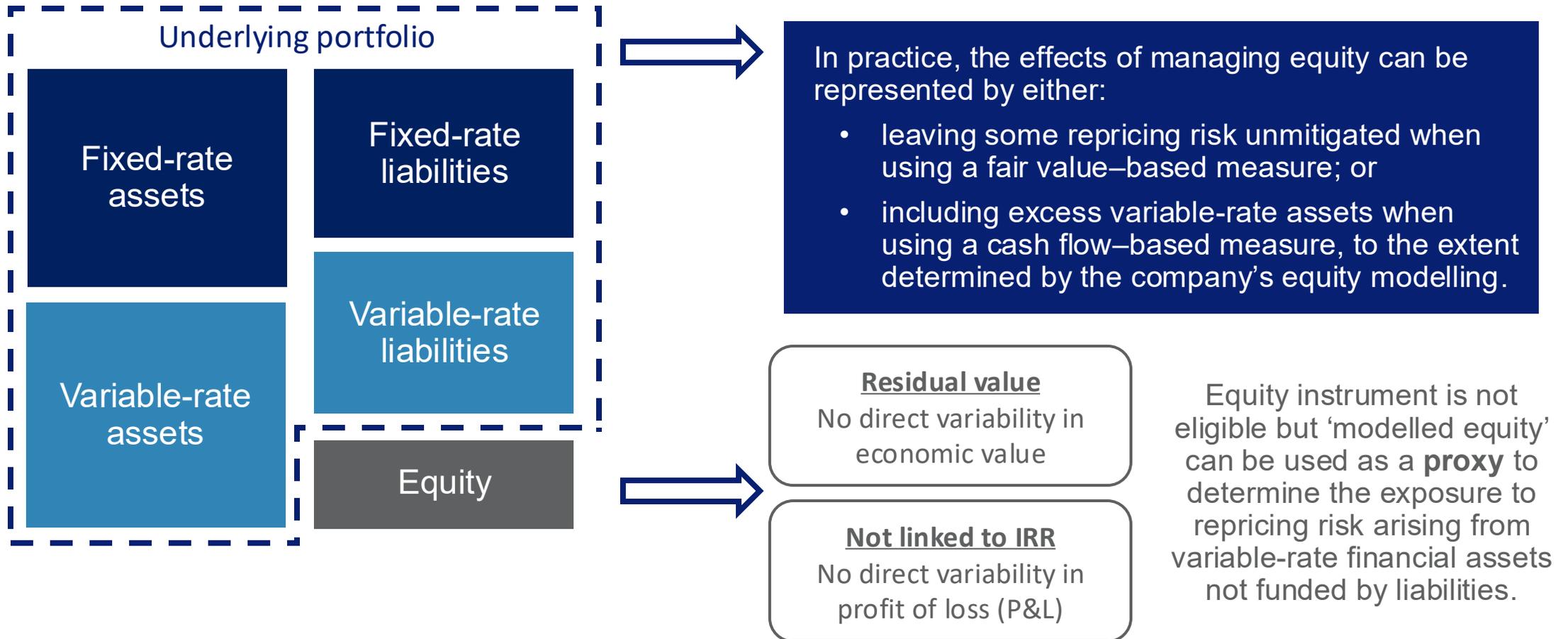
Net repricing risk exposure is:

- determined separately for each mitigated rate
- expressed using the same risk measures that companies use for risk management decisions

- In RMA, aggregation of repricing risk from financial instruments is achieved through the use of repricing time bands
- Companies are required to set its NRRE by repricing time bands, in a manner consistent with how it makes risk management decisions.
- No such requirement for risk limits.

\* PV01 means present value of a single basis point change in interest rates

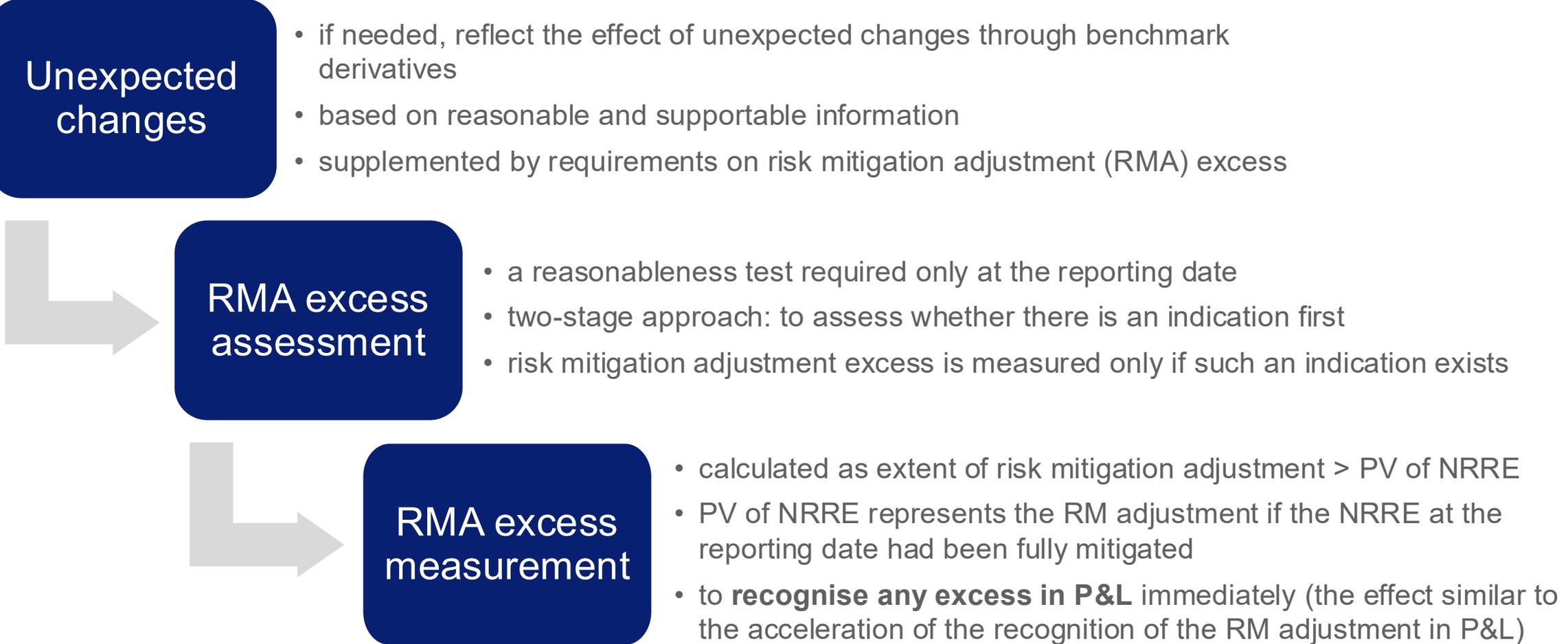
# Managing Equity



# Unexpected changes and RMA excess

## Unexpected changes

- if needed, reflect the effect of unexpected changes through benchmark derivatives
- based on reasonable and supportable information
- supplemented by requirements on risk mitigation adjustment (RMA) excess



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graph TD; A[Unexpected changes] --> B[RMA excess assessment]; B --> C[RMA excess measurement];
```

## RMA excess assessment

- a reasonableness test required only at the reporting date
- two-stage approach: to assess whether there is an indication first
- risk mitigation adjustment excess is measured only if such an indication exists

## RMA excess measurement

- calculated as extent of risk mitigation adjustment > PV of NRRE
- PV of NRRE represents the RM adjustment if the NRRE at the reporting date had been fully mitigated
- to **recognise any excess in P&L** immediately (the effect similar to the acceleration of the recognition of the RM adjustment in P&L)

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