Dynamic Risk Management (DRM) Cover Note

Objective

1 The objective of this session is to obtain feedback from EFRAG FR TEG members on the latest IASB's tentative decisions on DRM.

The IASB meeting of 25 April 2023

2 The IASB discussed at its meeting on 25 April 2023 the following three papers on the topic of DRM:

(a) A summary of its tentative decisions to date (IASB Staff paper 4A);

(b) Risk mitigation intention and the construction of the benchmark derivatives (IASB Staff paper 4B); and

(c) Further considerations on the current net open risk position (IASB Staff paper 4C).

3 This cover note briefly touches on aspects related to the summary of tentative decisions – but there will be no further paper.

4 Questions for EFRAG FR TEG are in paragraph 8 of this paper and in agenda paper 04-02 and 04-03.

Summary of tentative decisions to date

5 The EFRAG Secretariat considers this as a very useful summary document to help stakeholders follow the IASB's tentative decisions and progress on this complex project.

6 The IASB Staff structured the paper 4A as follows:

(a) Objective and scope of the DRM model (paragraphs 3 to 7);

(b) Current net open risk position (paragraphs 8 to 27);

(c) Designated derivatives (paragraphs 28 to 33);

(d) Qualifying criteria for the DRM model (paragraphs 34 to 50);

(e) Accounting for the DRM model (paragraphs 51 to 60)

(f) Disclosure and presentation (paragraphs 61 to 62);

(g) Transition and effective date (paragraph 63).

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[1] The DRM team consists of Sapna Heeralall as team leader, Laura Abeni and Fredré Ferreira (on a limited basis).

EFRAG FIWG discussions

7 EFRAG FIWG welcomed that IASB Staff agenda paper that summarises the IASB's tentative decisions to date on the refined DRM model and considered it a very useful document.

8 One member noted that it is still unclear how entities that do not manager their interest risk across time buckets would apply the DRM model. The member provided a common example of risk management activities based on tracking the economic value (EV) of risk positions with a fixed maturity (assets and liabilities), calculated with six IRRBB supervisory outlier tests.

EFRAG Secretariat comments

9 The EFRAG Secretariat notes the following:

(a) It is not clear how the DRM adjustment will unwind which stakeholders have indicated as a very important issue;

(b) Paragraph 60 seems to indicate that an entity may choose to discontinue the DRM model which seems to contradict paragraphs 26 and 32 of the paper;

(c) It is not clear how the assessment period interacts with the fact that risk management is updated on a timely basis in reaction to the changed net open risk position and risk exposures by time buckets will be updated based on the passage of time.

Questions for EFRAG FR TEG

10 Does EFRAG FR TEG have any further comments/concerns relating to the summary of IASB tentative decisions? If any important decisions or topics have not been listed, please elaborate.

Next steps

11 The EFRAG Secretariat will continue to monitor the IASB developments on the project and provide update to the EFRAG FIWG, EFRAG FR TEG and EFRAG FRB.

Agenda Papers

12 In addition to this cover note, agenda papers for this session are:

(a) Agenda paper 04-02 – DRM Risk mitigation intention and the construction of the benchmark derivatives;

(b) Agenda paper 04-03 – DRM Further considerations on the current net open risk position; and

(c) Link to two new webcasts to explain the DRM project based on the IASB's tentative decisions on current net open risk position (CNOP) and performance assessment produced by the IASB Staff – for background information.