

# RISK MITIGATION ACCOUNTING: A NEW PORTFOLIO- BASED MODEL UNDER CONSULTATION

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In December 2025, the International Accounting Standards Board (IASB) published an Exposure Draft proposing amendments to IFRS 9 Financial Instruments and IFRS 7. The proposal introduces an optional Risk Mitigation Accounting (RMA) model intended to better represent in financial statements the economic effect of managing repricing risk on a net basis. The consultation is open until 31 July 2026.

## CONCEPT AND ARCHITECTURE OF THE RMA MODEL

The proposed Risk Mitigation Accounting model aims to provide an accounting representation of a central activity of many financial institutions: the mitigation, on a net basis, of repricing risk at portfolio level. Repricing risk is defined as a type of interest rate risk arising from differences in the timing and amount of financial instruments that reprice to benchmark interest rates. In practice, banks and insurers frequently manage this risk dynamically by aggregating exposures across portfolios of financial assets, financial liabilities and certain future transactions, rather than managing risk instrument by instrument.

The accounting challenge that motivates RMA stems from measurement asymmetry. Interest rate derivatives used to mitigate repricing risk are measured at fair value through profit or loss. By contrast, many items included in underlying portfolios – such as fixed-rate assets and liabilities

measured at amortised cost – do not reflect changes in market rates in profit or loss on the same basis. As a result, earnings volatility may largely reflect the fair value remeasurement of swaps, even when repricing risk has been mitigated at a net level.

The RMA model replaces an instrument-by-instrument hedging logic with a portfolio-based framework structured around risk management concepts defined in the Exposure Draft.

The key elements are:

- the **net repricing risk exposure**, determined by aggregating underlying portfolios into repricing time bands based on expected repricing dates;
- a formally specified **risk mitigation objective**, expressed as an absolute amount of repricing risk to be mitigated and capped at the net repricing risk exposure in each time band; >

- the construction of **benchmark derivatives**, theoretical instruments that replicate the timing and amount of repricing risk specified in the risk mitigation objective; and
- the recognition of a **risk mitigation adjustment** in the statement of financial position.

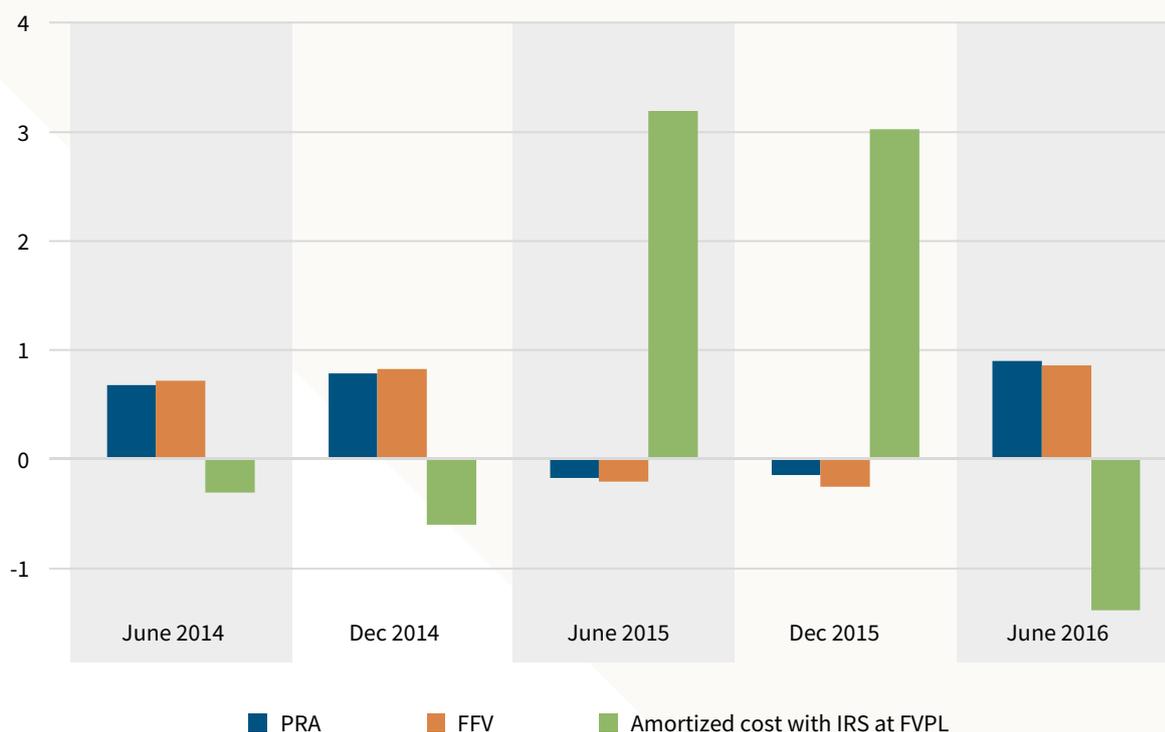
This architecture aims to ensure that financial statements represent the extent to which an entity's risk management activities have successfully mitigated repricing risk, while remaining aligned with how repricing risk is managed internally.

### ACCOUNTING MECHANICS: FROM ASYMMETRY TO PORTFOLIO VIEW

To illustrate the issue addressed by RMA, consider a simplified case: fixed-rate assets funded by floating-rate liabilities, with an interest rate swap used to mitigate repricing risk on a net basis. Suppose the reference floating rate first decreases and then increases.

Under a traditional accounting configuration – balance sheet largely measured at amortised cost and swap measured at fair value through profit or loss – earnings volatility is primarily driven by changes in the fair value of the swap. The underlying balance sheet items that generate repricing risk do not produce offsetting profit >

FIGURE 1: Earnings volatility under different accounting



The green bar corresponds to a configuration where underlying portfolios remain at amortised cost and designated derivatives are measured at fair value through profit or loss. Earnings are highly volatile.

The orange bar illustrates a broader fair value perspective, where rate-sensitive balance sheet items are also remeasured, producing offsetting effects.

The blue bar represents a portfolio-based view consistent with the RMA logic, where the accounting representation is structured around net repricing risk exposure and the risk mitigation objective. Volatility is reduced because the accounting outcome reflects mitigation at an aggregate level rather than standalone derivative fair value changes.

or loss effects at the same time. The resulting volatility reflects accounting mismatch rather than pure economic exposure.

A broader fair value approach would reduce this asymmetry, but would not necessarily reflect how repricing risk is managed in practice.

The RMA approach introduces a portfolio-based representation aligned with dynamic risk management.

Under the proposed model, the measurement of financial instruments in underlying portfolios remains unchanged, and derivatives continue to be measured at fair value through profit or loss. However, a **risk mitigation adjustment** is recognised in the statement of financial position. This adjustment is measured as the lower of:

- the cumulative gain or loss on designated derivatives; and
- the cumulative change in the fair value (present value) of benchmark derivatives.

The accumulated risk mitigation adjustment is subsequently recognised in profit or loss in the same periods in which repricing differences arising from underlying portfolios affect profit or loss. If the accumulated adjustment exceeds the present value of the net repricing risk exposure, the excess must be recognised immediately in profit or loss and cannot be reversed.

The model therefore defers part of the derivative fair value changes so that profit or loss better reflects the timing of repricing effects in the underlying portfolios.

## IMPLICATIONS FOR INSURERS

Although most current users of IAS 39 macro hedge accounting are banks, the Exposure Draft explicitly raises questions for entities that issue insurance contracts under IFRS 17. The IASB seeks feedback on whether insurance contract assets and liabilities – assuming they are eligible for inclusion in underlying portfolios – could be incorporated into the RMA framework, and whether doing so would better represent the economic effect of insurers' interest rate risk management activities.

For actuaries, this is a key point. Insurers frequently manage assets and insurance liabilities jointly from both an earnings perspective and an economic value perspective. The interaction between IFRS 17 measurement (including discount rate effects and the contractual service margin) and a potential RMA adjustment raises conceptual and operational questions. The IASB is therefore inviting specific input on the alignment between insurers' risk management strategies and the characteristics required to apply RMA.

## CONCLUSION

The proposed Risk Mitigation Accounting model does not change how financial instruments or derivatives are measured. Instead, it reframes how derivative fair value changes are reflected in profit or loss when repricing risk is managed dynamically and on a net basis.

By anchoring the accounting representation in the net repricing risk exposure and the risk mitigation objective, the IASB seeks to align financial reporting more closely with risk management practices, enhance transparency, and reduce reliance on proxy hedging techniques. <



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