



Risk Mitigation Accounting

The Successor of IAS 39 Portfolio Hedge
Accounting is Waiting in the Wings

Content

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1. Introduction	Page 3
2. Elements and Standard Process of RMA 2.1 Risk Management Strategy 2.2 Further RMA Process Steps	Page 4
3. Transition / First-Time Adoption	Page 7
4. Conclusions	Page 8

With the introduction of IFRS 9 (first-time application: 01/01/2018) for the accounting of financial instruments, the rules for hedge accounting were also revised – with one exception: portfolio hedge accounting. In parallel with the development of IFRS 9 since 2013, work was indeed undertaken on a new version of the portfolio hedge accounting model; however, due to numerous unresolved issues and broad criticism of an initial discussion paper on the so-called “Portfolio Revaluation Approach,” published in 2014, no new rules for portfolio hedge accounting were ultimately adopted as part of IFRS 9. In particular, the previously applicable provisions of IAS 39 may therefore continue to be used until further notice both for portfolio hedges and for micro and group hedges, including the EU-specific “carve-out,” which permits a bottom-layer hedge.

DRM Core Model and Transition into a Standard-Setting Project

Not least since publication of the so-called “Core Model” in July 2019, the IASB (at that time still under the heading “Dynamic Risk Management” (DRM)) has been working with renewed intensity on developing a new solution for portfolio hedge accounting; since July 2022 this has taken place as part of a standard-setting project. Since the publication of the agenda paper on transition requirements (AP4A, 10/24)¹, it has been clear that the new portfolio hedge accounting model is to be integrated into IFRS 9. Although the exact timeline has not yet been finalised, initial application – and thus the potential replacement of IAS 39 – could take place by 2030.

Publication of the Exposure Draft and Renaming to Risk Mitigation Accounting (RMA)

In October 2024, the IASB announced that the Exposure Draft would be published in 2025, followed by a 240 day comment period. During this phase, a few stakeholders (including banking associations and banking supervisors) had already approached the IASB with comment letters on points they considered critical. These included, among other things, potentially undesirable effects in the DRM adjustment due to possible weaknesses in the so called “capacity assessment,” as well as potentially unexpected effects on CET1 ratios.

At the beginning of December 2025, the announced Exposure Draft was finally published on the IASB’s website, and the end of the comment period was set for 31 July 2026. Alongside its publication, the model was also renamed “Risk Mitigation Accounting” (RMA), and the scope was extended from banks to other financial institutions, such as insurance companies.

The Exposure Draft includes several adjustments compared with the aspects previously discussed, some of which take these points of criticism into account. In general, however, the Exposure Draft follows a more principles based approach that focuses on fundamental questions and issues rather than prescribing detailed requirements for the methods to be used.

The following sections take a closer look at the Risk Mitigation Accounting approach based on the Exposure Draft.

Interest Rate Management as a Central Aspect of Hedge Accounting

With RMA, the IASB aims to achieve a more realistic depiction of risk management in financial reporting (ED 12/2025, paras. 7.1.2–7.1.3). The RMA approach is therefore derived from the risk strategy of the respective institution, so that diffe-

¹ All documents on DRM/RMA may be found on the [IASB website](#).

rent perspectives arise depending on whether the leading management view for interest rate risk is based on an EVE or NII perspective. In all cases, the key figures Net Repricing Risk Exposure (NRR) and Risk Mitigation Objective (RMO) must be determined consistently with risk management (ED 12/2025, paras. 7.2.9, 7.4.1), which also raises architectural questions regarding the system implementation of the RMA processes.

However, the closer linkage with the risk strategy already mentioned also leads to restrictions, for example through the elimination of voluntary and period dependent (de) designations. While, at present, strategic derivative positions may be included in portfolio hedge accounting under IAS 39 (a practice that is used to a material extent depending on current market expectations), such a flexible interpretation will no longer be readily possible under RMA.

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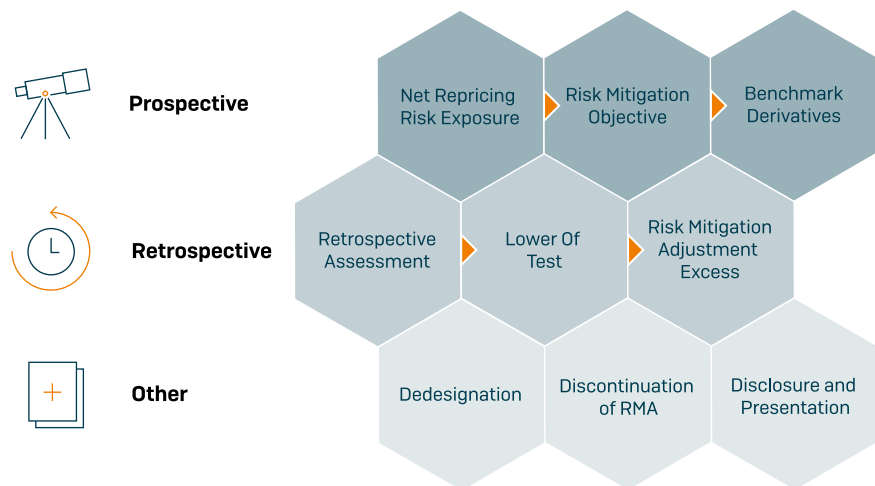
Elements and Standard Process of RMA

2.1

Risk Management Strategy

The future RMA process is an interplay between the treasury's management processes and the accounting perspective. The risk management strategy (RMS) provides the central framework for RMA by defining how the company manages (interest rate) risks (ED 12/2025, para. B7.1.6). Fundamental elements of risk management, such as governance structures, the interest rate to be managed (mitigated rate), the primary risk metric used for management, as well as the risk limits for RMA, are specified by the RMS.

The following section briefly explains the key elements of the regular RMA process.



2.1.1

Prospective Steps at the Beginning of the Hedging Period

The following steps must be carried out within the regular RMA process at the start of each hedge period (see also the document "Illustrative Examples" 12/2025):

Determination of the Net Repricing Risk Exposure (NRR)

Depending on the primary risk management approach (EVE or NII) and the risk metric used for that approach, the net risk position of the underlying portfolios is determined per time bucket. This can be done, for example, in the form of a PVo1 profile (in the EVE perspective) or based on repricing cash flows (in the NII perspective). In principle, all non-derivative transactions relevant for interest rate risk management are included, i.e. assets and liabilities including sight deposits. Behavioural modelling, analogous to interest rate risk management, may be used, for example deposit modelling or prepayment models. However, there is a whole range of exclusion criteria for determining the NRR: in particular, FVPL-measured positions and equity must not be included (BC 12/2025, paras. BC46, BC50).

Determination of the Risk Mitigation Objective (RMO)

The RMO represents the portion of NRR that the entity intends to reduce using derivatives. The basis for the RMO is formed by the designated derivatives, which in general are a subset of the external derivatives entered into for interest rate risk management. Internal derivatives and certain types of (net written) options are excluded (ED 12/2025, paras. 7.3.4, 7.3.2). Consistent with the determination of NRR, a risk profile, broken down by time buckets, is first determined in accordance with the primary management approach (NII/EVE). The RMO is then set in compliance with the following rules (see also ED 12/2025, paras. 7.4.1–7.4.2):



Rules for the determination of the RMO

- $RMO \leq NRR$ – No over-hedging is permitted; the RMO may only include risk positions that reduce the exposure identified in the NRR.
- $NRR - RMO \leq \text{risk limits}$ – The net risk position must be determined based on the targeted tolerance range in accordance with the risk strategy.

Once the RMO has been initially defined, it may no longer be changed retrospectively; changes may only relate to the next period (ED 12/2025, para. 7.4.4). An exception applies to changes in NRR that lead to a failure of the retrospective test (see section 2.1.2).

Construction of Benchmark Derivatives

After it has been defined, the RMO must be evidenced by constructing so-called benchmark derivatives (ED 12/2025, para. 7.4.5). This is intended to ensure that the RMO is measured independently of the designated derivatives.

Benchmark derivatives are synthetic derivatives that reflect an entity's RMO. Benchmark derivatives may only reflect the characteristics of the RMO with respect to the risk metric specified by the risk strategy, and not those of the designated derivatives. Benchmark derivatives are defined regarding the risk being managed and based on the reference rate relevant to the specific interest rate risk, in accordance with the risk management strategy. They are calibrated to the current market interest rates for the risk to be managed to have an initial fair value of zero.

The following steps must necessarily be performed at the end of the hedging period:

Retrospective Assessment

To determine the impact of unexpected changes in NRR during the past period, for example due to unexpected prepayments, a retrospective test is performed (ED 12/2025, paras. 7.4.8–7.4.14). The purpose of this test is to assess whether, and to what extent, the bank has successfully mitigated its interest rate risk despite these unexpected changes. If, in the retrospective assessment, the bank is found to be over-hedged, the RMO must be adjusted retrospectively, and additional benchmark derivatives must be recognised.

Determination of the Risk Mitigation Adjustment

The portion of the fair value changes of the designated derivatives that is consistent with the RMO must be recognised in the Risk Mitigation Adjustment instead of in profit or loss (P&L). For this purpose, RMA for the past period under review is calculated using a lower-of test (lower-of requirement) (ED 12/2025, para. 7.4.85). In this process, RMA is determined as the lower (in absolute terms) of (a) the cumulative changes in fair value of the designated derivatives and (b) the cumulative changes in fair value of the benchmark derivatives. The detailed requirements for determining these changes in fair value differ slightly between the Exposure Draft and the Basis for Conclusions.²

In the previously published discussion papers in the DRM project, the lower-of test still included an additional component relating to net interest income, which is no longer explicitly included in the Exposure Draft. Nevertheless, it should be ensured that only the “effective portion” of the hedged risk is reflected in NII, in order to reduce variability in NII as well.

Subsequent amortisation of RMA should, in principle, affect profit or loss in those periods in which the results of the underlying financial instruments also affect profit or loss. However, the Exposure Draft does not set out detailed requirements in this regard. A rational approach should be selected, for example one that is aligned with the profiles of the benchmark derivatives (ED 12/2025, para. B7.4.17). A straight-line release is also not ruled out in principle, provided that no other approach appears appropriate and feasible (ED 12/2025, para. 7.5.3).

Risk Mitigation Adjustment Excess

The consideration of unforeseen changes in the NRR during a hedge period is a complex and much-discussed topic and is not fully covered by the retrospective assessment. To simplify the burdensome tracking of NRR and monitoring of unexpected changes, the calculation of a so-called Risk Mitigation Adjustment Excess is envisaged if there is an indication that unforeseen changes are not fully captured by the retrospective assessment (AP4A, 06/2024, reference Exposure Draft: ED 12/2025, paras. 7.4.11–7.4.14).

There should be no automatic adjustment of past Risk Mitigation Adjustments when the underlying positions partially run off due to prepayments. To nevertheless ensure that the recognised Risk Mitigation Adjustment remains aligned with

² In the Exposure Draft, for the designated derivatives explicit reference is made to cumulative gains and losses, whereas for the benchmark derivatives reference is made to cumulative fair value changes (ED 12/2025, para. 7.4.8). In the Basis for Conclusions (BC 12/2025, BC93), by contrast, reference is made to cumulative fair value gains or losses for both the designated derivatives and the benchmark derivatives. In our view, the wording in the Basis for Conclusions better reflects the intention of the RMA approach, in that the same performance measures are compared. Due to the wording in the Exposure Draft, in our opinion unexpected effects on net interest income could arise in specific constellations.

the risk of the NRR, it should be assessed, if there is an appropriate indication, whether the Risk Mitigation Adjustment is higher than the present value of the current NRR and therefore no longer consistent with the expected benefit for NRR. The principles-based definition of the present value of NRR in the Exposure Draft, as well as the additional flexibility granted for practical implementation, leave various options open as to how this process might be implemented in future. Weighing up the implementation options during the consultation phase can therefore be useful. In the event of a Risk Mitigation Excess, a corresponding portion of the Risk Mitigation Adjustment must then be derecognised through profit or loss.

2.2

Further RMA Process Steps

Beyond the regular core RMA process, there are further procedural requirements:

De-designation / Discontinuation of RMA

Because RMA is aligned with the risk management strategy, RMA must always be terminated and newly established when the risk management strategy is amended in significant respects. Unlike portfolio hedge accounting under IAS 39, voluntary de-designation or even termination of RMA is not envisaged (ED 12/2024, para. 7.5.2).

Disclosures in the IFRS Notes

As mentioned at the outset, a key objective of RMA is to achieve a higher degree of transparency in depicting risk management activities in an entity's IFRS financial statements (ED 12/2025, para. 7.1.3). Accordingly, when RMA is applied, additional information must also be disclosed, including maturity profiles and average interest rates of the designated derivatives, a breakdown of NRR, and information on any Risk Mitigation Adjustment Excess (ED 12/2025, paras. 30D–30P).

03.

Transition / First-time Adoption

Although the date of initial application has not yet been determined, detailed proposals already exist for the rules governing the initial application of RMA.

Discontinuation of Hedge Accounting under IAS 39

While the introduction of RMA will be voluntary and not mandatory, the application of existing IAS 39 hedges will no longer be permitted once RMA is introduced (ED 12/2025, para. IN13). This applies to existing portfolio hedges as well as micro hedges. In these cases, de-designation in accordance with the requirements of IAS 39 / IFRS 9 must be performed at the time of initial application of RMA (ED 12/2025, para. C2.57).

Micro Hedge Positions under IFRS 9

For positions that have so far been included in micro hedges under IFRS 9, there is a one-off option at the time of initial application of RMA to de-designate them and include the affected positions within RMA (ED 12/2025, para. C2.58).

Fair Value Option

For positions that have so far been measured under the fair value option, there is likewise a one-off option at the time of initial application to reclassify them so that these positions can be included in RMA (ED 12/2025, paras. C2.59–C2.60).

The introduction of RMA represents a paradigm shift in hedge accounting and therefore presents banks with a wide range of challenges, which are, however, also associated with opportunities:

Strong Interlinkage between Risk Management and Accounting

The strong orientation of RMA toward the risk management process and risk strategy leads to a significantly closer integration of interest rate risk management and hedge accounting. This puts banks in a position where they must review both their risk strategy and their management processes with a view to optimally designing RMA. At the same time, this also creates an opportunity to streamline banking processes and leverage related synergies. For optimal integration of RMA into the system architecture, simply adapting the existing systems used for portfolio hedging will, in many cases, not be sufficient. Instead, each individual process step within RMA should be examined separately to determine whether integration with risk management within the architecture is feasible.

Interaction with Other Systems

Potential impacts are, a priori, not limited to the risk management and hedge accounting systems; the involvement of trading systems (e.g. for generating and storing data on benchmark derivatives) may also be useful. Due to the significant impact of the lower-of-test and potentially of determining any Risk Mitigation Adjustment Excess on the posting logic, effects on sub-ledger accounting are particularly likely. To date, the processes for standard postings of net interest income and fair value result for derivatives are often decoupled from the determination of hedge accounting entries, which are then recorded "on top," for example in the form of reclassifications between fair value result and hedge result. The lower-of-test creates new dependencies between the standard posting processes and hedge accounting entries, which poses a challenge for the end-to-end RMA process.

Strategic Considerations for IT Architecture and Transition

For the reasons outlined above, the introduction of RMA is likely to be associated with cross-functional architecture decisions at many banks. Due to the lead times involved, an early analysis is recommended to enable the introduction and subsequent operation to be designed as efficiently as possible. From a technical standpoint, several fundamental decisions must also be made for RMA (including the use of transition reliefs, dealing with group structures, and the choice of hedge periods).

Practical Testing and Preliminary Impact Assessment

To identify potential issues and analyse and test possible solutions in a practical manner, it is sensible to carry out simulation calculations. As part of such analyses, it should also be examined whether, and how, the approach described in the Exposure Draft can be implemented in practice, or whether significant challenges are to be expected. Such test runs under real-world conditions enable both a well-founded analysis of potential gaps and active, targeted interaction with the IASB during the planned 240-day comment period (ED 12/2025, p. 14).

RMA Glossary

Benchmark Derivates	Synthetic derivatives that are used to assess the effectiveness of interest rate risk management. They represent the risk mitigation objective and are initially calibrated to a fair value of zero.
Designated Derivates	Hedging derivatives that have been entered into with external counterparties for interest rate risk management and are assigned to the NRR. In the context of RMA, they are used, among other things, to evidence the Risk Mitigation Objective.
Economic Value of Equity (EVE)	In the context of RMA, this refers to the fair value of the banking book. One of the objectives of applying the RMA model is to make parts of the EVE volatility in the balance sheet, caused by risk management activities, more explainable.
Lower-of-Test	Compares designated derivatives with benchmark derivatives in terms of cumulative fair value changes on the one hand and realised interest rate profiles on the other. The lower of the two amounts is recognised as the Risk Mitigation Adjustment.
Net Interest Income (NII)	In the context of RMA, this refers to the interest income of the banking book. One of the objectives of applying the RMA model is to make parts of the NII volatility in the balance sheet, caused by risk management activities, more explainable.
Net Repricing Risk Exposure (NRR)	The net interest rate risk position, broken down into time bands, arising from the eligible assets and liabilities of the institution over the interest rate risk management horizon. The allocation to time bands is based on the interest rate repricing dates of the underlying transactions, taking into account (modelled) cash flows.
Retrospective Assessment	Process step at the end of each RMA period which, considering unexpected changes in NRR that occurred during the past period, retrospectively identifies possible over-hedges.
Risk Mitigation Adjustment	A balance sheet item arising from the application of the lower-of test under the RMA model. Economically, it corresponds to the cumulative fair value changes of the hedging derivatives that are not recognised immediately in profit or loss.
Risk Mitigation Adjustment Excess	Difference between the Risk Mitigation Adjustment and the fair value of the net risk position. Within the RMA process, this excess is measured to ensure that the economic stabilising effects of risk management conveyed by the Risk Mitigation Adjustment can continue to be realised through the net risk position. If the Risk Mitigation Adjustment exceeds the fair value of the net risk position, the excess must be immediately derecognised through profit or loss from the Risk Mitigation Adjustment.
Risk Management Strategy (RMS)	In the context of RMA, this refers to the overarching strategy for managing the interest rate risk of the banking book. It provides key input for the concrete design of RMA.
Risk Mitigation Objective (RMO)	The extent to which an institution reduces its open interest rate risk through the use of hedging derivatives. For measurement purposes, it is represented by the benchmark derivatives.

Contact

We invite you to engage in a non-binding discussion on potential implementation pathways for your institution. Our team can provide support in designing a preliminary RMA study to address the outlined considerations in a timely and structured manner.

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