EFRAG Financial reporting

Dynamic Risk Management ('DRM')

EFRAG survey on the current practice of dynamic interest rate risk management in the context of the IASB's Dynamic Risk Management model

Introduction

1 The IASB has a project on accounting for Dynamic Risk Management ('DRM') to enable investors to understand the effect of a company's dynamic risk management of repricing risk due to changes in interest rate and to evaluate the effectiveness of interest rate risk management.

2 The IASB expects to publish an Exposure Draft ('ED') on DRM in Q4 2025.

3 The IASB's latest tentative decisions referred to in the questions below can be found here.

Purpose and content of this survey and further activities

4 The objective of this survey is to collect input on the current practice of dynamic interest rate risk management and the capabilities of banks, insurers, financial conglomerates and other entities in the context of the upcoming DRM model. The survey results will be used by the EFRAG Secretariat in designing the field test of the upcoming IASB's ED and as background data when preparing EFRAG's draft comment letter on this ED.

5 In the survey, the EFRAG Secretariat asks for permission to contact respondents to discuss or clarify certain aspects of the responses received if needed.

6 EFRAG is planning for a second survey which will be more focused on the details of the proposed DRM model when the ED is published.

7 In addition to the surveys, EFRAG is preparing for field testing during the exposure period of the requirements to be published in the ED.

Structure

8 The survey is organised into the following sections:

Section 1 – General questions (Questions 1.1.-1.12)

Section 2 – Questions for banks (Questions 2.1-2.9)

Section 3 – Questions for insurers (Questions 3.1-3.14)

Section 4 – Question for financial conglomerates (Question 4.1)

Section 5 – Questions for other entities (Questions 5.1-5.3)

9 Respondents should complete Section 1 and Section(s) 2, 3, 4 and/or 5 depending on their type of organisation. Financial conglomerates will be asked to complete Sections 2, 3 and 4.

10 To answer the questions, contributions are expected both from staff with the accounting expertise (AC) and with the risk management/treasury expertise (RM). To facilitate the completion of the survey, some questions are marked (AC), (RM), or (AC and RM) indicating which expertise, EFRAG expects to be most likely involved in answering the respective questions.

11 Participants are not required to respond to all the questions in the survey. While EFRAG would be eager to obtain feedback on as many elements as possible, participants are invited to focus on the issues which they find the most relevant.

12 EFRAG expects that the survey may be completed in 1 to 4 hours depending on the complexity of the entity's operations. The purpose of the survey is to receive holistic overviews rather than absolutely complete detailed information.

Deadline and relevant information

13 Please submit your answers by **31 July 2025** by clicking on the '**Submit**' button at the bottom of the survey.

14 Please note that you can save the draft survey and go back to it at a later time by clicking on the '**Save and continue later'** button in the top right corner of the page. EFRAG will only take into consideration surveys where the 'Submit' button has been used.

15 The collected information will remain confidential and, when used in documents, it will be presented in such a way that no individual company or person can be identified.

16 For any queries regarding the survey content, please contact Sergey Vinogradov (sergey.vinogradov@efrag.org) or Sapna Heeralall (sapna.heeralall@efrag.org).

Thank you for completing this survey!

Appendix 1: Survey questions

Section 1 – General questions

Question 1.1 - Respondent's profile *[1]

Name:

Email address:

Question 1.2 – Your organisation (group of companies you belong to) *

Name of the organisation:

Country of incorporation:

Question 1.3 – What is your entity's position within your group? *

Please select:

(a) Ultimate parent

(b) Intermediate parent

(c) Subsidiary (but not (b))

(d) Entity without a subsidiary (but not (c))

For the rest of the survey, please interpret each question as referring to your entity including any entities controlled by your entity (excluding entities controlling your entity and entities controlled by such entities).

◯ Yes, I understand

Question 1.4 – (Optional) Please indicate the number of significant subsidiaries and/or branches and the number of jurisdictions where they operate in which dynamic risk management is applied:

Question 1.5 – What is the activity of your entity or group? *

Please select:

(a) Banking [Sections 1 and 2]

(b) Insurance [Sections 1 and 3]

[1] (*) – mandatory question

(c) Financial conglomerate [Sections 1, 2, 3 and 4]

(d) Other [Sections 1 and 5]

Please specify:

Question 1.6 – (AC) Please indicate the total assets of your entity/group as at 31 December 2024. *

(a) Less than € 10 billion

(b) Between € 10 billion and € 100 billion

(c) Between € 100 billion and € 500 billion

(d) More than € 500 billion

Question 1.7 – (RM) Does your group/entity perform risk management of interest rate exposures? *

(a) Yes, but on a non-dynamic basis

(b) Yes, including on a dynamic basis

(c) No

[If (a) or (b)] Please indicate what you consider in describing or defining dynamic interest risk management. *

[If (c)] Please note that if the answer to this question is (c) then only a limited number of questions of the survey will be asked.

Question 1.8

(A) [If the answer to Question 1.3 is (a) or (b)] (AC) What is the accounting framework applied in your group's financial statements?

Please select:

(a) IFRS Accounting Standards

(b) Exempt for reporting consolidated financial statements

(c) Other

If other, please specify

(B) [If the answer to Question 1.3 is (a) or (b)] (AC) What is/(are) the accounting framework (s) applied in your significant subsidiaries' financial statements?

Please select:

(a) IFRS Accounting Standards

(b) Exempt for reporting separate financial statements

(c) Other

If other, please specify

(C) [If the answer to Question 1.3 is (c) or (d)] (AC) What is the accounting framework applied in your separate/entity financial statements?

Please select:

(a) IFRS Accounting Standards

(b) Exempt for reporting separate financial statements

(c) Other

If other, please specify

Question 1.9

(AC) [If the answer to Question 1.7 is (a) or (b)] Which framework for hedge accounting do you apply to your interest rate risk management?

Please select:

(a) No hedge accounting applied for interest rate risk management

(b) IAS 39

(c) IFRS 9

(d) Other hedge accounting

If other, please specify

(AC) [If the answer above is (b)] What type of hedge accounting do you apply to your interest rate risk management (please mark for all types that apply):

☐ IAS 39 cash flow hedge accounting

☐ IAS 39 fair value hedge accounting

☐ IAS 39 fair value hedge accounting for groups of items not using EU carve-out

☐ IAS 39 fair value hedge accounting for groups of items using EU carve-out

(AC) [If the answer above is (c)] What type of hedge accounting do you apply to your interest rate risk management (please mark for all types that apply):

☐ IFRS 9 cash flow hedge accounting

☐ IFRS 9 fair value hedge accounting

☐ IFRS 9 cash flow hedge accounting of a group of items

☐ IFRS 9 fair value hedge accounting of a group of items

(AC) [If the answer above is ''IAS 39 fair value hedge accounting for groups of items using EU carve-out''] If you apply the IAS 39 carve-out, do you provide explicit disclosures on the carve-out?

(a) Yes, state explicitly that the carve-out is applied and how it is applied

(b) Yes, state explicitly that the carve-out is applied, but with no further disclosures

(c) Yes, do not state explicitly that the carve-out is applied, but describes application

(d) No, do not state explicitly that the carve-out is used nor procedures that are only aligned with the actual use of the carve-out

Please explain what disclosures you provide on the application of the carve-out:

Question 1.10

(A) (RM) [If the answer to Question 1.7 is (b)] At which level do you mostly apply dynamic interest rate risk management practices?

Please select:

(a) Mostly at group/entity level

(b) Mostly at subsidiary/branch level

(c) Substantial management at both group level and subsidiary/branch

(d) Other

If other, please specify

Please explain in more detail, including why it is applied at this level and the extent the interest rate risk management is done at group/entity versus subsidiary/branch level.

(B) (RM) [If the answer to Question 1.7 is (a) or (b)] What is the number of benchmark rate exposures that are separately managed on a dynamic basis? (e.g., €STR, EURIBOR, SOFR)

Please select:

(a) One

(b) Two

(c) Three to five

(d) Six to ten

(e) More than ten

(Optional) Please provide further explanations, where needed.

(C)(RM) [If the answer to Question 1.7 is (a) or (b)] What type of derivatives does your entity use for hedging interest rate risk?

Please select all applicable answers

☐ (a) Interest rate swaps

☐ (b) Interest rate futures and forwards

☐ (c) Cross currency interest rate swaps

☐ (d) Non-linear derivatives such as swaptions, caps and floors

☐ (e) Other

If other, please specify

(D) [If the answer to Question 1.7 is (a) or (b)] Does your entity hedge FX risk and interest rate risk simultaneously?

(a) Yes

(b) No

If yes, which FX derivatives does your entity use for this simultaneous hedge?

Please select all applicable answers

☐ (a) Cross Currency Swaps

☐ (b) FX forwards

☐ (c) Other

If other, please specify

Specifically in relation to the total interest rate risk managed, how significant is the cross-currency interest risk management?

Please select:

(a) Very significant

(b) Significant

(c) Not significant

(Optional) Please provide more details

Question 1.11 – How familiar are you with the DRM model as currently outlined in the latest tentative decisions of the IASB (see Appendix A)?

(a) Very familiar

(b) Moderately familiar

(c) Slightly familiar

(d) Not familiar

Question 1.12 – [If the answer to Question 1.7 is (a) or (b)] Is your entity planning to conduct or participate in a field test of the requirements in the ED?

Please select

(a) Yes, we are currently planning for a field test

(b) No, we are not currently planning for a field test

(c) We are considering a field test but as of now, we have not made a tentative decision

What difficulties, if any, do you expect in relation to a field test?

Section 2 – Questions for banks

Question 2.1 - (AC and RM) [If the answer to Question 1.7 is (b)] In general, how closely does your current accounting for dynamic interest rate risk management reflect your actual risk management practices?

Please select:

(a) Very closely

(b) Somewhat closely

(c) Not closely at all

Please provide further details on any significant issues separating your accounting from your actual risk management practices.

Question 2.2

(A) – (RM) For regulatory reporting purposes, does your entity have to report exposure to Net interest income (NII) and Economic value of equity (EVE)?

(a) Yes, it has to report exposure to NII and EVE

(b) No, it only has to report exposure to EVE

(c) No, it only has to report exposure to NII

(d) No, it does not have to report exposure to either NII or EVE

(B) – (RM) [If the answer to Question 1.7 is (b)] In your dynamic interest risk management strategy, does your entity have a dual objective that aims to mitigate the variability of both NII and EVE?

(a) Yes

(b) No

[If yes] Which objective has the primary attention?

Please select:

(a) Equal focus

(b) Mitigating variability in NII

(c) Mitigating variability in EVE

(d) Mitigating NII in the short term and EVE in the long term

(e) Other

If other, please describe

[If no] Which is your entity's objective?

Please select:

(a) Mitigating variability in NII

(b) Mitigating variability in EVE

(c) Other

If other, please describe

Question 2.3 – (RM) [If the answer to Question 1.7 is (a) or (b)] Do you currently include equity in your interest rate risk management practices?

(a) Yes

(b) No

[If yes] Explain which types of equity instruments are included in the interest rate risk positions and how they are modelled.

Question 2.4 (RM)

(A) [If the answer to Question 1.7 is (b)] How does your entity currently calculate the interest rate risk position(s) managed dynamically (e.g., net versus gross position)?

(B) [If the answer to Question 1.7 is (a) or (b)] Which items does your entity include in this/those risk position(s) (e.g., fixed versus floating rate assets and liabilities included)?

(C) [If the answer to Question 1.7 is (a) or (b)] If demand deposits are included in the interest rate risk position(s), how are the behavioural aspects of those demand deposit modelled?

Please explain

How significant are these liabilities?

Please select:

(a) Very significant

(b) Significant

(c) Not significant

(d) Such liabilities are not included in the interest rate risk positions

(Optional) Please provide further explanations

(D) [If the answer to Question 1.7 is (a) or (b)] If assets with prepayment options at par (or at fixed price) are included in the interest rate risk position(s), how are the behavioural aspects of those assets modelled?

Please explain

How significant are these assets?

Please select:

(a) Very significant

(b) Significant

(c) Not significant

(d) Such assets are not included in the interest rate risk positions

(Optional) Please provide further explanations

(E) [If the answer to Question 1.7 is (a) or (b)] If financial assets measured at fair value thorough other comprehensive income (FVOCI) are included in the interest rate position(s), how significant are these assets?

Please select:

(a) Very significant

(b) Significant

(c) Not significant

(d) Such assets are not included in the interest rate risk positions

(Optional) Please provide further explanations

(F) (AC and RM) [If the answer to Question 1.7 is (a) or (b)] What is/are the name(s) of the significant IT system(s) involved in calculating the interest rate risk position for risk management purposes? Please provide further details on the system(s) involved in the calculation (e.g., internally developed or acquired):

(G) [If the answer to Question 1.7 is (a) or (b)] What is the name(s) of the significant IT system(s) used for the calculation of the value of your interest rate derivatives? Please provide further details on the system(s) involved in the calculation (e.g., internally developed or acquired).

Question 2.5 (RM)

[If the answer to Question 1.7 is (b)] How often does your entity [subsidiary/branch/group] assess the interest rate risk position managed dynamically for risk management purposes?

Please select:

(a) Daily or more frequently

(b) Weekly

(c) Monthly

(d) Less frequently than monthly

Please provide further details including the reason why such a frequency is applied.

[If the answer to the question above is (b), (c) or (d)] In your view, how difficult would it be to switch to a more frequent assessment than you are currently doing? Please explain.

Question 2.6 – (RM) [If the answer to Question 1.7 is (a) or (b)] Is the interest rate risk position currently managed by time buckets?

(a) Yes

(b) No

If Yes, how are the time buckets defined? Provide further details.

If No, please explain (some of) the reasons why time buckets are not used.

Question 2.7 – (AC) [If the answer to Question 1.7 is (b)] Please describe any significant issues you currently face in accounting for dynamic interest rate risk management practices in the consolidated financial statements of your banking group/entity.

Question 2.8 – (AC and RM) In addition to interest rate risk, what other types of risk, if any, should be dealt with in you view as part of the IASB's DRM project? Please explain

Question 2.9 – [If the answer to Question 1.7 is (b)] Please share any other relevant comments on your current practice of dynamic risk management

Section 3 – Questions for insurers

Question 3.1 (RM)

(A) Please explain your significant exposures to interest rate risk.

(B) If not covered in (A) please explain the interest rate risks in your issued insurance contracts.

(C) [If the answer to Question 1.7 is (a) or (b)] Please explain the importance of interest rate risk management within your risk management framework.

(D) Which accounting models in IFRS 17 does your entity apply?

Please select all applicable answers

☐ (a) General model/building block approach

☐ (b) Modified general model/building block approach

☐ (c) Premium allocation approach

☐ (d) Variable fee approach

Please provide further details as to which model is used for which type(s) of significant insurance contracts? Please only mention the types of insurance contracts where interest rate risk is considered significant.

Question 3.2 – (RM) [If the answer to Question 1.7 is (a) or (b)] Is the exposure to interest rate risk managed separately from other risks?

Please select:

(a) Yes

(b) No

Please explain

Question 3.3 - [If the answer to Question 1.7 is (b)] In general, how closely does your current accounting for dynamic interest rate risk management reflect your actual risk management practices?

Please select:

(a) Very closely

(b) Somewhat closely

(c) No closely at all

Please provide further details.

Question 3.4

(A) – (RM) For regulatory reporting purposes, does your entity have to report exposure to Net interest income (NII)/Net financial result (NFR) and Economic value of equity (EVE)?

(a) Yes, it has to report exposure to NII/NFR and EVE

(b) No, it only has to report exposure to EVE

(c) No, it only has to report exposure to NII/NFR

(d) No, it does not have to report exposure to either NII/NFR or EVE

(B) - (RM) [If the answer to Question 1.7 is (b)] In your dynamic interest rate risk management strategy, does your entity have a dual objective that aims to mitigate the variability of both NII/NFR and EVE?

(a) Yes

(b) No

[If Yes] Which objective has the primary attention?

Please select:

(a) Equal focus

(b) Mitigating variability in NII/NFR

(c) Mitigating variability in EVE

(d) Mitigating NII/NFR in the short term and EVE in the long term

(e) Other

If other, please describe

[If No] Which is your entity's objective?

Please select:

(a) Mitigating variability in NII/NFR

(b) Mitigating variability in EVE

(c) Other

If other, please provide further details.

Question 3.5 (RM)

(A) [If the answer to Question 1.7 is (b)] How does your entity currently calculate the interest rate risk position(s) managed dynamically (e.g., net versus gross position)?

(B) [If the answer to Question 1.7 is (a) or (b)] Which items does your entity include in this/these risk position(s)?

(C) [If the answer to Question 1.7 is (a) or (b)] If financial assets measured at fair value thorough other comprehensive income (FVOCI) are included in the interest rate position(s), how significant are these assets?

Please select:

(a) Very significant

(b) Significant

(c) Not significant

(d) Such assets are not included in the interest rate risk positions

(Optional) Please provide further explanations

(D) [If the answer to Question 1.7 is (a) or (b)] What is/are the name(s) of the significant IT system(s) involved in calculating the interest rate risk position for risk management purposes? Please provide further details on the system(s) involved in the calculation (e.g., internally developed or acquired).

(E) [If the answer to Question 1.7 is (a) or (b)] What is the name(s) of the significant IT system(s) used for the calculation of the value of your interest rate derivatives? Please provide further details on the system(s) involved in the calculation (e.g., internally developed or acquired).

Question 3.6 (AC and RM)

(A) [If the answer to Question 1.7 is (b)] On what basis do you predominantly manage your dynamic interest rate risk position(s)?

Please select:

(a) Based on financial reporting

(b) Based on regulatory reporting

(c) Based on internal risk management targets

(d) Other

If other, please explain

(B) [If the answer to Question 1.7 is (b)] What are the key differences in reflecting the interest rate risk management activities in financial versus regulatory reporting?

Please explain

Financial reporting	Regulatory reporting

Question 3.7 (RM)

[If the answer to Question 1.7 is (b)] How often does your entity assess the interest rate risk position managed dynamically for risk management purposes?

Please select:

(a) Daily or more often

(b) Weekly

(c) Monthly

(d) Less frequently than monthly

Please provide further details including the reason why such a frequency is applied.

[If the answer to the question above is (b), (c) or (d)] In your view, how difficult would it be to switch to a more frequent assessment than you are currently doing? Please explain.

Question 3.8 – (RM) [If the answer to Question 1.7 is (a) or (b)] Is the interest rate risk position currently managed by time buckets?

(a) Yes

(b) No

If Yes, how are the time buckets defined? Provide further details.

If No, please explain why time buckets are not used.

Question 3.9 – (AC) - [If the answer to Question 1.7 is (b)] How do you currently account for the related financial assets and insurance liabilities which have exposure to interest rate risk managed dynamically (e.g., for insurance liabilities, describe the use of the OCI option and the risk mitigation option)?

Question 3.10 – (AC) [If the answer to Question 1.7 is (a) or (b)] Based on your experience with reporting under IFRS 17/IFRS 9, to what extent did IFRS 17 provide suitable solutions to your

accounting needs with respect to interest rate risk management (e.g., by providing the OCI option and the risk mitigation option)?

Question 3.11 (AC)

In your view, what should the purpose of the DRM project rather be?

Please select:

(a) Providing a robust solution aligning reporting under IFRS Accounting Standards with your actual practices of interest rate risk management

(b) Providing targeted improvements to IFRS 9 and IFRS 17 in situations where the existing accounting treatments do not work properly

(c) Other

[If the answer above is (c)] If other, please specify

[If the answer above is (b)] Please specify the expected targeted improvements to IFRS 9 and IFRS 17

[If the answer above is (a)] Please explain in more details

Question 3.12 – (AC and RM) In addition to interest rate risk, what other types of risk, if any, should be dealt with in your view as part of the IASB's DRM project? Please explain.

Question 3.13 – (AC) <u>[If the answer to Question 1.7 is (a) or (b)]</u> Please describe any other significant issues which you currently face in accounting for interest rate risk management practices in the consolidated/separate financial statements of your insurance group/entity.

Question 3.14 – <u>[If the answer to Question 1.7 is (b)]</u> Please share any other relevant comments on your current practice of dynamic risk management

Section 4 – Question for financial conglomerates

Question 4.1 – (AC) [If the answer to Question 1.7 is (a) or (b)] Please describe any significant issues which you currently face in accounting for interest rate risk management practices in the consolidated financial statements of your group, particularly those related to the dual nature of the financial conglomerate (banking/insurance).

Section 5 – Questions for other entities

Question 5.1 – (AC and RM) [If the answer to Question 1.7 is (a) or (b)] Please describe your current interest rate risk management practices, both from the risk management and the accounting perspectives.

Questions 5.2 - (AC and RM) Apart from interest rate risk, what other types of risks if any, should be dealt with in your view as part of the IASB's DRM project? Please explain.

Question 5.3 – [If the answer to Question 1.7 is (b)] Please share any other relevant comments on your current practice of dynamic risk management

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Do you agree to EFRAG contacting you to discuss or clarify certain aspects of the responses provided?

(a) Yes

(b) No

You have reached the end of this survey, please remember to press the "Submit" button