Summary of the Financial Instruments Working Group meeting held on 12 November 2024 from 2pm to 5pm

Meeting agenda

Item no.	Item
1	Welcome
2	Dynamic Risk Management: IASB staff presentation
3	Dynamic Risk Management: A UK banking perspective
4	Dynamic Risk Management: A UK insurance industry perspective
5	New IASB research projects: 5.A Amortised Cost Measurement 5.B Statement of Cash Flows
6	Any other business

Attendees

Present	
Name	**Designation**
Peter Drummond	Chair, Financial Instruments Working Group (FIWG)
Alan Chapman	FIWG member
Brendan van der Hoek	FIWG member
Conrad Dixon	FIWG member (virtual attendance)
Fabio Fabiani	FIWG member
Helen Shaw	FIWG member
Richard Crooks	FIWG member
Robbert Labuschagne	FIWG member

Stacey Howard	FIWG member
Michael Gaull	Observer

In attendance	
Name	**Designation**
Pauline Wallace	Chair, UKEB
Tony Clifford	Board member, UKEB
Seema Jamil-O-Neill	Technical Director, UKEB
Joao Costa Santos	Observer with speaking rights - second agenda item only (NatWest Group Accounting)

Apologies: Kumar Dasgupta (FIWG member), Mark Randall (FIWG member), Mark Spencer (FIWG member) and Sarah Bacon (FIWG member).

IASB staff members were present for the first agenda item only.

A member of the Financial Reporting Council – Corporate Reporting Review team was present as an observer without speaking rights.

Relevant UKEB Secretariat team members were also present.

Welcome

1. The Chair of the FIWG welcomed members, the observers and those in attendance to the meeting, and thanked the IASB staff members for their attendance.

Dynamic Risk Management: IASB staff presentation

2. The IASB staff presented an update on the Dynamic Risk Management (DRM) project, which is expected to result in an exposure draft in the first half of 2025. This session was intended as an update from their previous presentation to the FIWG in November 2023[1]. The presentation focused on the following:

   a) Further considerations in respect of the DRM capacity assessment.

   b) The applicable risk management activities for the DRM model.

   c) The optional application of the DRM model.

[1] Link to FIWG November 2023 meeting summary.

d) The proposed presentation and disclosure requirements of the DRM model.

e) The criteria for discontinuation of the DRM model.

f) The proposed transition requirements of the DRM model.

3. In the ensuing discussion the following principal points were made:

a) In response to questions from members, the IASB staff emphasised that the capacity assessment is a reasonableness test required only at the reporting date. The intention is to alleviate the operational burden of detailed tracking of individual positions, resulting in a reduction of complexity and data required. The capacity assessment is meant to be a secondary test that provides assurance to the users of the financial statements that the DRM adjustment is not overstated at the reporting date.

b) The IASB staff also noted that there would be a separate section in the Invitation to Comment (ITC) for insurers.

c) The IASB staff explained that the proposed disclosure requirements should not be too onerous as (i) they build on existing disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* and (ii) the data required to meet the disclosure requirements comprises mostly inputs into and outputs from the DRM model.

d) Both members and the IASB staff agreed that there would be judgement involved as to whether changes result in the discontinuation of the DRM model given the dynamic nature of relevant risk management activities. One member emphasised that the objective of the DRM model needs to be clearly drafted to guide this judgement.

4. The Chair thanked the IASB staff for the presentation.

Dynamic Risk Management: A UK banking industry perspective

5. Joao Costa Santos, NatWest Group representative, presented initial feedback from the UK banking industry on the IASB's DRM model.

6. In the ensuing discussion the following main points were made:

a) In addition to the survey and the white paper produced by the International Swaps and Derivatives Association (ISDA), two upcoming pieces of work were expected to be published in 2025, focussing on (i) the operational challenges of the IASB's DRM model and (ii) the regulatory considerations resulting from DRM.

b) Additional Tier 1 instruments were accounted for differently in different jurisdictions (possibly due to different terms and conditions required by local regulators), with some (e.g. those in the UK) treated as equity instruments and others treated as financial liabilities. This diversity meant that the DRM model may work better for some territories than for others.

c) While the DRM model requires the use of a managed rate, it was noted that banks do not necessarily use a single rate for different products. This may necessitate the use of a composite rate for the purposes of the DRM model. Consequently, this composite rate could artificially create basis risk.

d) Further work would be needed to consider the emerging views of stakeholders (including regulators), in particular on matters such as the capacity assessment.

e) While the DRM model is expected to work well for less complex risk management strategies, it remains to be seen whether it would work well for large and complex banks. Field-testing will be key for all banks to understand if the DRM model works well for them in practice, given their particular levels of complexity and/or resources.

7. The Chair thanked Mr Santos for the presentation.

Dynamic Risk Management: A UK insurance industry perspective

8. Richard Crooks, FIWG member, presented observations on DRM from the perspective of a UK annuity provider applying the General Measurement Model (GMM) in IFRS 17 *Insurance Contracts*.

9. In the ensuing discussion the following points were made:

a) Insurers typically measure financial investments at fair value on both the Solvency II and IFRS bases but the insurance contract liabilities are accounted for differently under the two frameworks. Insurers typically place more focus on managing interest rate exposure affecting the regulatory capital position so it is difficult to also manage the interest rate exposure on an IFRS basis.

b) The Contractual Service Margin (CSM) is required to be measured at locked-in rates under the IFRS 17 GMM, meaning the CSM is not sensitive to subsequent changes in interest rates. The financial investments and the other portions of the insurance contract liabilities are, however, sensitive to changes in interest rates. This results in increased volatility due to changes in interest rates in the IFRS profit or loss account.

c) There is a variety of views amongst insurers, exacerbated by (i) the different types and business mix of insurance and wealth management products underwritten; (ii) the adoption of various accounting policy choices allowed by IFRS 9 and IFRS 17; and (iii) the differing types of IFRS 17 measurement model used. Therefore, it was acknowledged that a single solution would be difficult to achieve.

10. The Chair thanked Mr Crooks for the presentation.

New IASB research projects

11. The objective for this session was to ask FIWG members' views on topics expected to be discussed at the December 2024 meeting of the IASB's Accounting Standards Advisory Forum[2] (ASAF). The UKEB is a member of ASAF representing the views of UK stakeholders.

Amortised Cost Measurement

12. The UKEB Secretariat informed members that the IASB has commenced its research project *Amortised Cost Measurement*. This project is the IASB's response to stakeholder feedback over the past years, including that received on the IASB's Post-implementation Review of IFRS 9 *Financial Instruments* – Classification and Measurement and the Post-implementation Review of IFRS 9 *Financial Instruments* – Impairment.

13. FIWG members were invited to share views on the IASB staff's initial list of project topics. Overall, members agreed with the issues identified. However, it was noted that current practice on those issues was generally well established. A full assessment of benefits vs costs would be key throughout the project development, otherwise the IASB would risk significant disruption to current practice for limited perceived benefit.

14. It was also noted that the IASB should leverage from the work already done by others (including regulators), for example, defining write-offs and forbearances, instead of completely revisiting existing practice.

15. Items mentioned as possible priority items included:

    a) Estimation of cash flows.

    b) Application of the requirements in IFRS 9 paragraphs B5.4.5 and B5.4.6.

    c) Modification of financial instruments.

2 The IFRS - Accounting Standards Advisory Forum is an advisory forum to the IASB consisting of national standard-setters (including some regional standard-setting bodies), contributing towards the goal of developing globally accepted high-quality accounting standards.

16. Initial IASB staff research findings are expected to be reported to the IASB in Q1 2025.

Statement of Cash Flows

17. The UKEB Secretariat informed members that the IASB has added a project on the *Statement of Cash Flows and Related Matters* to its research pipeline following feedback on its Request for Information: Third Agenda Consultation.

18. FIWG members were asked for their views on the matters identified as potential topics to be addressed by the project, specifically the importance of considering the statement of cash flows for financial institutions.

19. There was a general consensus that the statement of cash flows is less relevant for financial institutions; however, any attempt to make it more useful would require a significant standard setting project. Given the IASB's limited resources it would be better to focus on other priorities at this point in time.

20. A member commented that investors understand the limitations of the cash flow statement and are able to gather information they require on liquidity etc. through other disclosures.

Any other business

21. The Chair of the FIWG noted that it was Conrad Dixon's last meeting as a FIWG member and thank him for his contributions over the past two years.

22. It was confirmed that the next FIWG meeting would be held on 13 January 2025.

23. There being no other business, the meeting closed.