

Wallstreet Suite

Comprehensive, cross-asset investment and debt management solutions for financial institutions and corporations

www.wallstreetsystems.com



FACT SHEET: HEDGE ACCOUNTING



The Wallstreet Suite accounting solution provides comprehensive and flexible hedge accounting functionality which fully supports hedge accounting reporting, documentation and effectiveness testing. The hedge accounting solution ensures clients comply with the key revenue recognition, reporting and disclosure requirements of IFRS and FAS.

BUSINESS CHALLENGES

As the demands of regulation such as IAS 39 and FAS 133 place ever increasing burdens on accounting and the front office alike, organizations are increasingly looking at extending the automation of the hedge accounting process. Such automation will reduce manual intervention at all levels, from hedge capture to accounting and disclosure reporting, thereby reducing the risk of error and employee effort.

At the same time, there is a preference for developing a more controlled, pro-active and inclusive approach to hedge management. With the split of responsibility between the front office and accounting becoming ever more challenging, it is imperative that the integration of the entire hedge accounting management process is seamless if organizations are to see timely and accurate monthly reporting.

Ultimately, closer scrutiny of derivatives on the balance sheet and organizations' hedging policies, lead to a greater need for increased transparency on an organization's hedge accounting and its effects on the balance sheet and P&L volatility.

However, whilst looking for the tools to support hedge accounting, organizations are also faced with ensuring that as and when regulators modify the rules, the required changes are handed effectively and expeditiously by the vendor.

KEY FEATURES



FLEXIBLE HEDGE RELATIONSHIP DEFINITION

Wallstreet Suite's hedge accounting functionality provides full support for all hedge types; Cash Flow, Net Investment and Fair Value hedges. Hedging functionality is available for financial product classes supported by Wallstreet Suite, hence providing hedge management in one integrated system. Hedge relationship templates allow you to define the data that is used recurrently on the same type of hedge relationships.

Information typically defined at template/program level includes:

- Hedging Strategy with a link to the appropriate documentation
- Hedged Risk
- Effectiveness Assessment and Measurement Test Methods
- Accounting key figures, 'what do you account for versus what do you test for?'

Additionally, hedge relationships support the following features:

- Adding a hedging instrument and/or an underlying to multiple hedge relationships and monitoring % allocation
- Limiting changes made by the front office to the underlying and hedge transactions that are part of a hedge relationship
- The use of time-dependent rolling cash flow forecast exposures for hedges
- Flexible aggregation of forecasts and segmental reporting
- Designation by amount for forecasted currency exposures
- Hedge Lifecycles e.g. CASHFLOW hedge to FAIRVALUE hedge on the invoice forecast sales

The screenshot displays the Hedge Manager application with three main data tables:

Hedge Relations													
ID	Reference Code	State	Result Mode	From When	To When	Template	Strategy %	Underlying Strategy Status	Hedge Status	Underlying Designated Amount	Hedge Designated Amount	Required Strategy Amount	Underlying Underdesignated Amount
1	27 HA_001_301-KVC	Fin	AS-FRS	3/1/2006	17/3/2006	FX-EFF-000_001	90.00	Ok	On	-495,000.00	-495,000.00	495,000.00	
2	28 HA_001_301-KVC	Open	AS-FRS	3/1/2006	17/3/2006	FX-EFF-000_001	90.00	Underdesignated	On	8,000,000.00	-8,000,000.00	8,000,000.00	1,352,040.30

All Transactions														
Hedge ID	Hedge Type	From When	To When	Hedge ID	Relation	Leg	Number	Type	From When	To When	Designated %	Designated Amount	Transaction Amount	Currency
1	27 CASHFLOW	3/1/2006	17/3/2006	1	27	Underlying	34	Cash Rev Forecast	3/1/2006	17/3/2006	90.00	-495,000.00	890,000.00	EUR
				2	27	Hedge	89	Transaction	3/1/2006	17/3/2006	100.00	-495,000.00	-495,000.00	EUR

Hedge Effectiveness						
Hedge ID	Maximal Effectiveness	Minimal Effectiveness	Valuation Date	Valuation Date Assessment Calculated	Valuation Date Assessment Applied	Valuation Date Qualified
1	27	100.00	30.09.2011	2006	99.02	99.02

Hedge Manager displaying a cash flow hedge relationship, the transactions included in the hedge relationship and its hedge effectiveness.

EXTENSIVE EFFECTIVENESS TESTING METHODS

Wallstreet Suite supports an extensive list of retrospective and prospective effectiveness testing methods. The following methods typically used for retrospective testing only include:

- Dollar Offset method
- Short Cut method

In addition, you can use statistical methods for both retrospective and prospective testing:

- Critical Terms
- Regression analysis, with full ANOVA results
- Ratio analysis

Cumulative and Periodic effectiveness testing methods are supported individually for the dollar offset method, ratio analysis and regression analysis.

Prospective testing using regression analysis provides flexible simulation support with the ability to use historic market rate scenarios for Historic Rate Simulation. Additionally;

- Rate Shock can also be applied to current or historic rates
- Each combination of IR/FX simulation will produce one figure for prospective testing
- Flexible choice of time intervals for data points
- A reference figure is also produced and calculated without any shift of IR and FX Rates

Effectiveness testing is also supplemented by specific hedging methodologies, namely Change in Variable Cash Flow and Hypothetical Derivative methods.

DE-DESIGNATION

The de-designation and basis adjustment processes for interest rate risk of fair value hedges are fully supported:

- Basis adjustments are 'warehoused' and amortization is triggered on de-designation
- This includes both de-designation of the entire hedge relationship as well as full or partial de-designation on transaction level
- Alternately, periodic basis adjustment amortization throughout the life of a hedge is supported in accordance with FAS 133 Appendix B Paragraph 117 and IAS 39.92
- On de-designation of fair value hedges, the accumulated fair value adjustments for the underlying transactions are measured and used to adjust the carrying value of the transaction and the effective yield of the underlying transaction is recalculated as of that date
- The subsequent amortization of the fair value adjustment is then based on the recalculated yield

Regardless of whether you de-designate or not, the following is supported in all circumstances for the determination of effective yield (or effective interest rate):

- The effective yield is inclusive of user-selected applicable transaction costs which are included in book value
- The same Effective Interest Rate methodology is also fully supported for the determination of amortized cost

AUTOMATED HEDGE ACCOUNTING PROCESS

The effectiveness of your hedge relationships is determined by a batch-driven activity which calculates and stores the required key figures (fair values) for each hedge, and then calculates the effectiveness and accounting measurement at reporting dates based on these data. You can easily schedule batch processes to run overnight. In all cases, the system-calculated effectiveness figure can be 'overruled' allowing you to use results from additional external methods of assessment. Effectiveness testing and closing the books can be processed independently, for example:

- Effectiveness testing can be QUARTERLY
- Closing the Books Accounting can occur MONTHLY
- Effectiveness is carried through from the last period
- On termination effectiveness can be taken from last period close or re-calculated just before executing the termination/de-designation

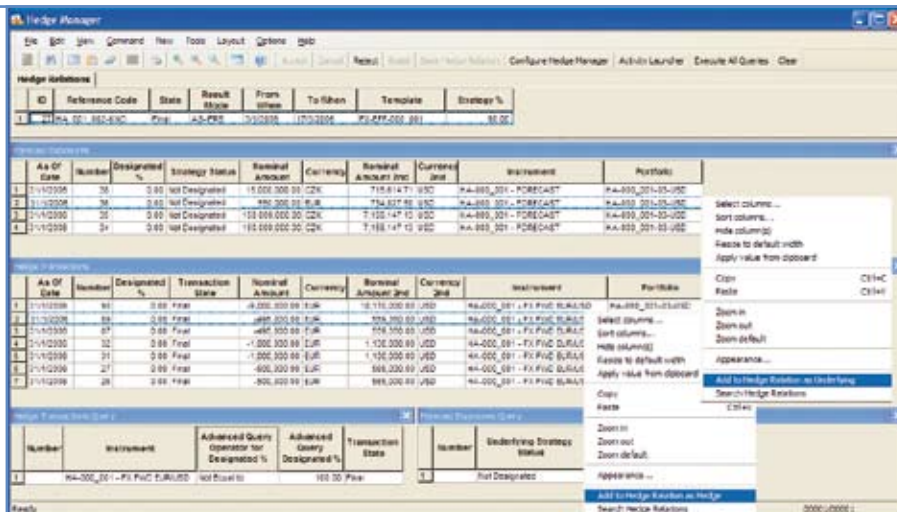
The subsequent creation of accounting entries is carried out using an accounting period close process. This standard functionality in Wallstreet Suite mirrors the 'periodic' management of hedge accounting in practice and can be combined with cumulative accounting processes in the system. The hedge accounting entries themselves are automatically created based on rules that use hedge information, e.g. hedge type and hedge effectiveness. The process includes generation and maintenance of Other Comprehensive Income/Hedging Equity Reserves for CASHFLOW hedges.

The rebalancing and automated amortization of the equity on termination, de-designation or maturity of a hedge, can either be immediate, according to the underlying transaction, on a specific date, or across specific dates, depending on the method specified for the hedge relationship. Further, this amortization can be either linear or according to the effective interest rate.

Wallstreet Suite's accounting solution supports multiple frameworks and runs full hedge accounting for a single position according to multiple standards in parallel. With key rules defined, single positions can be entered and multiple realized and unrealized results and selling treatments can be handled together with multiple posting rules and classifications.

BUSINESS CHALLENGE	WALLSTREET SUITE SOLUTION
CONTROL AND EFFICIENCY	▶▶ Wallstreet Suite offers a fully integrated and automated hedge accounting toolkit which not only enables greater efficiencies by reducing manual intervention, but leaves resources free to focus on a more proactive approach to hedging management. Supporting multiple accounting frameworks, Wallstreet Suite significantly improves efficiency. Further, supporting hedge management in an integrated software solution greatly reduces operational risk.
TRANSPARENCY	▶▶ A single front-to-back office accounting solution provides significantly greater transparency on hedge accounting implications for balance sheet and P&L volatility.
CHANGING RULES	▶▶ The need for changing system requirements when regulators change the rules is met through Wall Street Systems own proactive approach to 'Keeping with the Standards'.

Hedge Manager displaying forecast exposures and hedge transactions which can be selected and added to a hedge relationship.



HEDGE MANAGER

The Hedge Manager dashboard lets you create and maintain your hedge relationships and acts as a single point of control for all your hedge accounting requirements providing both administrative and reporting capabilities. Developed using the same concepts and functions as other transaction boards in Wallstreet Suite, Hedge Manager has fully customizable layouts and multiple query filters which easily enable you to query and select transactions for hedging.

Administrative functions in Hedge Manager include:

- Quick creation of hedge relationship from templates after transaction selection
- Amending, processing and deleting hedge relationships
- Ability to de-designate and partially de-designate hedges

Reporting functions in Hedge Manager include:

- Under/over hedging status based on nominal and term matching
- Monitoring hedges against hedging policies and strategies
- Monitoring of exposure hedging status
- Full and 'on the fly' effectiveness testing using the testing method defined at hedge relationship (template) level
- Audit log, and hedge effectiveness history monitoring
- Hedge documentation management

REPORTING

Wallstreet Suite's flexible reporting tool provides user configurable reports for all the typical hedge accounting reporting. Examples of standard reports include:

- Hedge Relation Report for documenting hedge relationships
- Hedge Calculation Report showing breakdown of fair values by transaction
- Hedge Forecast Designation Report for monitoring forecast exposures
- Hedge Key Figure Report – what are the fair values being used in effectiveness testing
- Hedge Effectiveness
- Hedge Effectiveness Logs – who did what

An on-screen effectiveness monitor is provided for capturing, modifying and accepting effectiveness results.

ADDITIONAL FEATURES SUPPORTED

- IFRS and FAS 138 Benchmarking – Benchmark Interest Rate key figures
- Derivative Implementation Guidance 20 – support for options through split of intrinsic and time value
- Identification and treatment of Option Strategies for split of OCI fair value/ effectiveness test components – the Section 63 option
- Impairment testing – IAS 39 and FAS 133

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