

Oracle Financial Services Hedge Management and IFRS Valuations

Oracle Financial Services Hedge Management and IFRS Valuations helps financial institutions perform fair valuation of financial instruments, manage hedging relationships, test hedge effectiveness, enable hedge accounting and disclosures, as well as assist in decision making through management reports. IFRS and US GAAP, along with other regulatory requirements make traditional - manual and siloed, processes used for these functions no longer practical. The Oracle Financial Services Hedge Management and IFRS Valuations application, as part of the IFRS 9 solution, caters to the modern enterprise-level, Integrated Risk and Finance offering.

COMPREHENSIVELY ADDRESS REQUIREMENTS FOR IFRS AND FASB

Oracle Financial Services Hedge Management and IFRS Valuations addresses IFRS and US GAAP requirements by offering a process driven capability to manage valuations and hedge relationships through a single application. The integrated IFRS 9 suite addresses three phases of the IFRS 9 standard:

- Classification and measurement
- Impairment assessment
- Hedge accounting

These capabilities are fully auditable from end-to-end achieved through a fully documented process stored throughout the life cycle of a hedging relationship and its participating components.

A unified data model, an integrated IFRS 9 environment, seamless integration with Oracle's Cash Flow Engine, transparency, auditability, choice of approaches (including all IFRS9 related computations for Valuations, Hedge Creation and effectiveness testing) and accounting enablement are the defining highlights of the solution.

Key Features

- Compute Fair Value of financial instruments and assign Fair Value Hierarchy
- Provide transparency and auditability of calculations and assumptions
- Manage full life cycle of hedge relationships including effectiveness testing
- Choice over multiple approaches
- Readily handle hedge de-recognition processes
- Enable Fair Value Gain /Loss and Hedge Accounting
- Prebuilt Disclosure and Management Reports

Key Business Benefits

- Address new and emerging accounting standards
- Create and tune hedging strategies to reduce P&L volatility and for optimal capital utilization
- Leverage common data quality and reconciliation processes across finance and risk applications
- Leverage a common computation engine for consistent valuations between Treasury and Accounting

Valuation of Financial Instruments

Oracle Financial Services Hedge Management and IFRS Valuations features the ability for users to value financial instruments according to the nature of the instrument. The solution supports fair valuation of on and off balance sheet financial instruments in synergy with time tested cash flow engine, common amongst other Oracle Financial Services Analytical Applications (OFSAA).

A key benefit of the solution is its flexibility in the valuations process. Based on instrument types, valuation can be done retrospectively as well as prospectively using the cash flow engine. Fair value determination processes can be assigned and later selectively executed on requirement at legal entity level through dedicated user interfaces. The application's Fair Valuation engine has dedicated processes for IFRS (IFRS 13 specifically) stated methods such as Unadjusted Quoted Prices, Other Observable Inputs and Unobservable Inputs.

In addition, the solution also provides the capability to compute component specific Fair Value, which can further be used in downstream computations, such as Hedge Effectiveness, as well as for differentiated accounting.

Instrument Type to Fair Value Process Definition Mapping				
Instrument Type	Market Data Provider	Fair Value Determination Order		
		1. Ascertain Market Value	2. Ascertain Near Market Value	3. Process Cashflows
<input type="checkbox"/> Bonds	BLOOMBERG	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Details	<input type="checkbox"/>
<input type="checkbox"/> Checking and Savings		<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<input type="checkbox"/> Loan Contracts		<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<input type="checkbox"/> Commodity Futures	REUTERS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Details	<input type="checkbox"/>
<input type="checkbox"/> Commodity Options	BLOOMBERG	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Details	<input type="checkbox"/>

Save Cancel

Figure 1 User interface based instrument type level fair valuation process selector

Manage Hedge Relationships and Test Effectiveness

Oracle Financial Services Hedge Management and IFRS Valuations features a disciplined approach for defining and storing hedging relationships. In addition to helping analysts determine the optimal hedge relationship at inception using industry standard quantitative and qualitative methods such as Critical Terms match, Credit Risk Dominance, Economic Relationship and Hedge Ratio, the application also allows subsequent testing for effectiveness through the hedge's life thereby enabling accurate accounting. The solution can also enable de-designation of a relationship when a hedge becomes ineffective. Moreover, forward valuations (forecasting) dates are supported in the application and can be applied to prospective /forward-looking computations.

TRANSPARENT AND SCALABLE SOLUTION TAILORED FOR THE ORGANIZATION

Oracle Financial Services Hedge Management and IFRS Valuations allows financial institutions to implement a modular, flexible and configurable solution that is scalable and tailored to your specific strategic business goals. The organization has the ability to compute reliable accounting values in line with the business and risk policies of the bank with multiple methodologies for various portfolios.

Hedge Accounting

Instrument fair value computed by Oracle Financial Services Hedge Management and IFRS Valuations is used to generate fair value gain/loss through a dedicated process along with key

accounting outputs generated by Oracle Financial Services Loan Loss Forecasting and Provisioning thereby offering a complete solution to address IFRS and FASB standards.

Hedge Effectiveness

This interactive tool allows users to flexibly choose the hedge effectiveness testing method with a mix of both qualitative and quantitative factors. Hedge effectiveness can be determined using forward looking information as mandated by IFRS. Through the intuitive user interface the user can balance the hedge relationship and designate it only when the test is effective.

User Interface Driven Application

Oracle Financial Services Hedge Management and IFRS Valuations is driven through intuitive user interfaces dedicated to help create a process to determine Fair values, hedge creation and effectiveness testing. Hedges can be composed for individual instruments or for segments via powerful search options through the screens.



Figure 1 Fair Valuation Process creation flow

Choose Effectiveness Testing Parameters	
Fair Value Determination Run Definition Folder	IFRSSEG01
Fair Value Determination Run Definition	AllTestFVR
Quantitative Parameters	
Measurement Methodology	<input type="checkbox"/> Prospective <input checked="" type="checkbox"/> Retrospective
<input checked="" type="checkbox"/> Hedge Ratios	
Computation Type	Cumulative
Prospective Hedge Ratio Methodology	
Retrospective Hedge Ratio Methodology	Dolar Offset
<input checked="" type="checkbox"/> Economic Relationship	

Figure 2 Hedge creation and effectiveness testing screen

RISK AND FINANCE INTEGRATION

The rules that make up an Asset Liability Management process (for example) can be shared with Oracle Financial Services Hedge Management and IFRS Valuations, therefore ensuring consistent valuations between Treasury and Accounting. The openness and flexibility of the application's data model creates the ability to support hedge accounting by integrating with an institution's financial accounting hub and other accounting systems. The flexibility of the reporting layer makes data available to:

- Book fair values
- Complete accruals / reversals of fair valuations

- Account for gains or losses on valuations
- Vary accounting treatment based upon hedge effectiveness

POWERFUL BI ANALYTICS FOR DISCLOSURES AND MANAGEMENT REPORTING

The application leverages Oracle Business Intelligence Enterprise Edition for information analysis and reporting and comes with pre-built disclosure and key analytical reports that enable management decision making. The reporting data model also enables easy hedge documentation required by the accounting standard.



COMMON DATA MODEL AND VALUATION ENGINE

With the OFSAA suite, financial institutions are better equipped to improve the challenges and complexities in handling large volumes of data, and reporting them as quickly as possible, with prominence on disclosures. Consistent valuations between Treasury and Accounting are now made possible with the common computation engine.

Oracle Financial Services Hedge Management and IFRS Valuations share a common infrastructure and analytical data model with other Oracle Financial Services Analytical Applications. This ensures that results generated from across the suite of analytical applications begin with a common, reconciled data source and come with full transparency and auditability of both the calculations and results, providing management with confidence that results are valid and consistent.

The underlying set of tools in the Oracle Financial Services Analytical Applications Infrastructure assists with loading, validating, categorizing, selection, and processing of data. Oracle Financial Services Analytical Applications Infrastructure helps control data quality, and provides a consistent approach across applications for assigning business assumptions and accessing shared data for computations underlying Oracle's Financial Services Analytical Applications.

ABOUT ORACLE FINANCIAL SERVICES ANALYTICAL APPLICATIONS

Oracle Financial Services Analytical Applications bring financial institutions best-of-breed capabilities to proactively manage Financial Crime, Compliance, Risk, Treasury, Finance and the Front Office. The applications are built upon a commonly available analytical infrastructure consisting of a unified financial services data model, analytical computations, a Metadata driven "R" modeling platform, and the industry-leading Oracle Business Intelligence platform.

A single, unified data model and infrastructure provides one version of the analytical "truth" to business users throughout the entire enterprise. This enables financial services institutions to confidently manage performance, governance, risk and compliance. Shared data, metadata, computations and business rules enable institutions to meet emerging business and regulatory requirements with reduced expenses and the unified platform helps financial institutions to leverage existing investments.

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