ORACLE FINANCIAL SERVICES
HEDGE MANAGEMENT AND IFRS VALUATIONS

Oracle Financial Services Hedge Management and IFRS Valuations helps financial services institutions compute the fair value of financial instruments and manage effective hedge relationships. New IFRS and other regulatory requirements for documentation and transparency make traditional manual and siloed processes used for these functions no longer practical. Moreover, accounting for financial instruments is increasingly complicated in today’s volatile market subject to frequent interest rate and other shocks. Oracle Financial Services Hedge Management and IFRS Valuations is a next-generation solution that is fully integrated with Oracle’s Financial Services Analytical Applications and shares a common customer account level data model and application architecture.

Address Regulatory Requirements
Oracle Financial Services Hedge Management and IFRS Valuations addresses regulatory requirements by offering a process driven capability to managing valuation and hedge effectiveness from a central place. Users must follow detailed steps to create and define rules associated with every assumption that is part of the valuation and effectiveness testing process. The framework is an open architecture and fully auditable from front to back. The result is a fully documented hedge process stored throughout its life cycle.

Classification and Valuation of Financial Instruments
Oracle Financial Services Hedge Management and IFRS Valuations features the ability for users to classify a financial instrument into any one of the prescribed valuation categories and to reclassify as another on an as needed basis in the future. The application supports calculation of Effective Interest Rate (EIR) to amortize the premium/discount and additional fees related to the financial instrument. The solution also supports fair valuation of on and off balance sheet financial instruments using a time tested cash flow engine, common among other Oracle Financial Services Analytical Applications (OFSAA).

A key benefit of the solution is its flexibility in the valuations process. It supports the ability to use EIR in calculating fair value, as well as robust and disciplined methods for discounted cash flow valuations, including multi-currency. Users can also define unlimited forward valuation dates for deterministic valuations used for prospective hedge effectiveness testing.

Financial instruments supported in the application include:

- Banking book: Term Deposits, Money Markets, Checking Accounts, Savings Accounts, Credit Cards
- Loans (Fixed, Adjustable, and Floating Rate)
**RELATED PRODUCTS**
- Oracle Financial Services Analytical Applications Infrastructure
- Oracle Financial Services Advanced Analytical Applications Infrastructure
- Oracle Financial Services Analytical Applications Reconciliation Framework
- Oracle Financials Accounting Hub
- Oracle Financial Services Asset Liability Management
- Oracle Financial Services Asset Liability Management Analytics
- Oracle Financial Services Data Foundation

- Mortgages
- Leases
- Annuities
- Off-Balance Sheet – Swaps: Interest Rate and Cross Currency
- Off-Balance Sheet -- Forward Rate Agreements

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**Management of Effective Hedging Relationships**

Oracle Financial Services Hedge Management and IFRS Valuations features a disciplined approach for defining and documenting hedging relationships. In addition to helping analysts determine the optimal hedge relationship at inception, the model includes a detailed auditable process of approving the definition, testing the effectiveness, monitoring effectiveness on a forward and backward looking basis, and derecognizing the relationship when a hedge becomes ineffective. A detailed audit trail is available for every defined hedge relationship.

The application also features a modeling sandbox and flexible statistical library that helps you proactively manage hedging relationships by effectively choosing the proper attributes of a hedge, relative to the hedged item. Users can create a sophisticated regression analysis that will inform and help create the most optimized hedge relationship.

Once a relationship is defined, submitted, and approved, the user can create and apply multiple what-if and stress scenarios for prospective hedging strategies. In addition, forward valuation dates are supported in the application and can be applied to forecast future values.

The defined hedge relationship informs the model what type of effectiveness testing needs to be completed. The benefit of having a centrally managed hedge process directly impacts the
bottom line by effectively reducing the volatility in earnings.

**Figure 2:** Readily monitor Hedge Effectiveness and Definition status

**Process Definition and Workflow**

Oracle Financial Services Hedge Management and IFRS Valuations features a simple step-by-step process for fair valuations and testing hedge effectiveness that is fully documented and transparent. Through the centralized management of the fair valuation and hedging relationships, the system is designed to provide assurance that an institution is following a disciplined process in its hedging practices.

The process includes the following steps:

- Specify Hedge Effectiveness limits
- Load the instrument data
- Define and run the process for computing fair valuation (including EIR)
  - Set up Time Buckets, Yield Curve and Currency definitions, define Valuation assumptions, including stress scenarios and forward starting dates
- Create, document, and approve Hedge Definitions
  - Fair Value, Cash Flow, Net investment
- Define and run the Hedge Effectiveness process (retrospectively and prospectively)
- Review effectiveness results and de-recognize ineffective hedges
- Utilize customized BI reporting to monitor valuations, track hedge performance, and audit results
- Map valuation and effectiveness results to your financial accounting systems
Common Data Model and Valuation Engine

Oracle Financial Services Hedge Management and IFRS Valuations shares 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, 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. Oracle Financial Services Hedge Management and IFRS Valuations also shares a time tested Cash Flow (Valuation) Engine with the other OFSAA applications. The rules that make up an OFSAA 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.

Figure 3: A common cash flow engine enables consistent valuations between Treasury and Accounting
Hedge 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 and Reporting on Valuation and Hedge Effectiveness

Oracle Financial Services Hedge Management and IFRS Valuations leverages the award winning Oracle Business Intelligence Enterprise Edition for BI analytics and reporting. The reporting engine offers seeded analytical and descriptive reports for management and supporting regulatory requirements. Featured reporting includes:

- Valuation reporting
- Effectiveness reporting / Hedge documentation
- Early warning signs / Trend reporting
- Full array of Audit reporting

About Oracle Financial Services Analytical Applications

Oracle Financial Services Hedge Management and IFRS Valuations is part of Oracle Financial Services Analytical Applications suite, an integrated suite of applications that share a common account level relational data model and application architecture. Oracle Financial Services Analytical Applications enable financial institutions to measure and meet risk-adjusted performance objectives, cultivate a risk management culture through transparency, and lower the costs of compliance and regulation.

Contact Us

For more information about Oracle Financial Services Hedge Management and IFRS Valuations, visit oracle.com or call +1.800.ORACLE1 to speak to an Oracle representative.
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Hardware and Software, Engineered to Work Together