Solution primer

OneSumX Hedge Accounting

Hedge accounting allows firms to reduce volatility in their profit-and-loss statements by permitting accounting adjustments that reflect hedges put on to mitigate price swings of assets on their books. The need for more effective ways to limit asset volatility, and to represent such strategies in a bank's accounts, arose from the global financial crisis. The COVID-19 pandemic and the ongoing IBOR reforms, covering how banks' reference interest rates are set, guarantee that the importance of risk mitigation and related accounting methods will not soon diminish.

OneSumX Hedge Accounting

IFRS Hedge Accounting which forms part of our OneSumX for Finance suite, ensures that there is no longer a mismatch between risk management practices in the real world and the way they are represented in financial institutions accounts.

The comprehensiveness of OneSumX Hedge Accounting helps firms to satisfy all management and auditor requirements regarding their hedge accounting activity.

Hedge packages can be loaded from source, and valuations can be calculated by the organization. Actual hedge accounting entries need not be part of the scope, but the solution's modular design is useful for executing these functions. This allows teams to use the solution to meet specific business needs.

Comprehensive approach
OneSumX Hedge Accounting allows teams to model valuations, enhancing insight into sensitivities of assets to interest rate movements and other risk factors. This is equally useful in asset and liability management and stress testing. The solution supports the full range of tasks related to hedging activities, from formal hedge designation through to the posting of the generated hedge accounting journals, including producing the required hedging valuations feeding effectiveness tests over the hedge lifecycle. The solution can also be

integrated with the dashboarding and business intelligence capabilities of OneSumX for Finance, which makes it fit for limit monitoring and trend analysis.

OneSumX Hedge Accounting is designed to fit within the contours of the evolving IFRS 9 accounting standards, of which hedge accounting is a key element, and U.S. generally accepted accounting principles (U.S. GAAP).

IFRS 9 features a sharpening focus on alignment with risk modeling and risk management practices. The intersection of finance and risk in treasury is where the hedging function resides.

The solution integrates easily into any front- or back-office system, providing the required fit for all middle-office needs from a product control perspective. Because it is modular, the solution can operate as a standalone finance tool supporting the hedge accounting ledger, or integrated with other capabilities like the valuation engine of OneSumX for Risk (allowing for broader risk management) and regulatory reporting (for producing FINREP for the EBA, for instance). The offering can be deployed as an end-to-end solution from designation to reporting, while incorporating an organization's specific needs or implemented as a point solution.
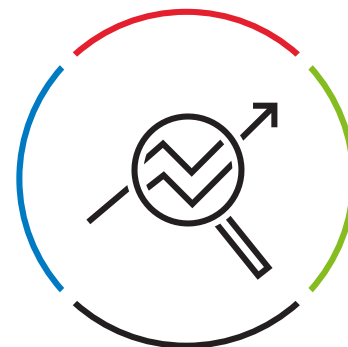
Step-by-step modular approach to hedge accounting
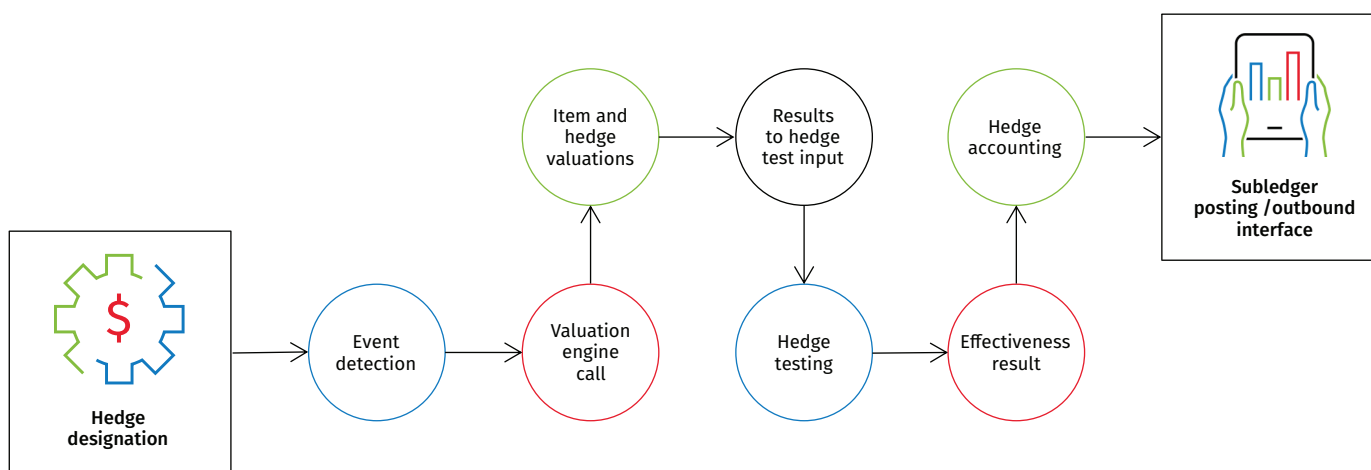
The following type of hedges can be supported:

- **Cash-flow hedges:** Cash flows of hedging instruments that offset those of the assets being hedged.

- **Fair-value hedges:** Compensates for changes in the fair value of hedged items by experiencing countervailing changes in the fair value of the hedging instruments.

- **Net investment hedges:** Fair-value hedges applied to investments in foreign entities.

Another dimension of hedge accounting concerns the hedge level, which can be a micro hedge applied to a single asset, a group hedge applied to a limited number of assets, and a macro hedge that applies to a portfolio of assets.

The following process flow is supported for all combinations of hedge types and hedge levels.

Step 1: Designation of the hedges
Setup and management of hedge designation (and rebalancing).

Step 2: Valuations of items and instruments
Multi-curve and hypothetical derivative valuations can be covered.

Step 3: Hedge effectiveness testing
Effectiveness testing, supporting methodologies like Critical Terms Match, Dollar Offset Method and/or the Linear Regression Method. The solution also offers the flexibility to test hedges with a combination of methods.

Additional advantages are provided when the solution is implemented with OneSumX Ledger, where based on the valuation and effectiveness results produced, hedge accounting entries can be posted with a chart of accounts that can be standard or configured.

Step 4: Hedge accounting
Supports various events, like: effectiveness, unwinding, underlying sold, ineffectiveness, rebalancing, (partial) discontinuation and the related amortization of hedged risk.

The comprehensiveness of OneSumX Hedge Accounting helps firms to satisfy all management and auditor requirements regarding their hedge accounting activity.

Hedge types and hedge levels
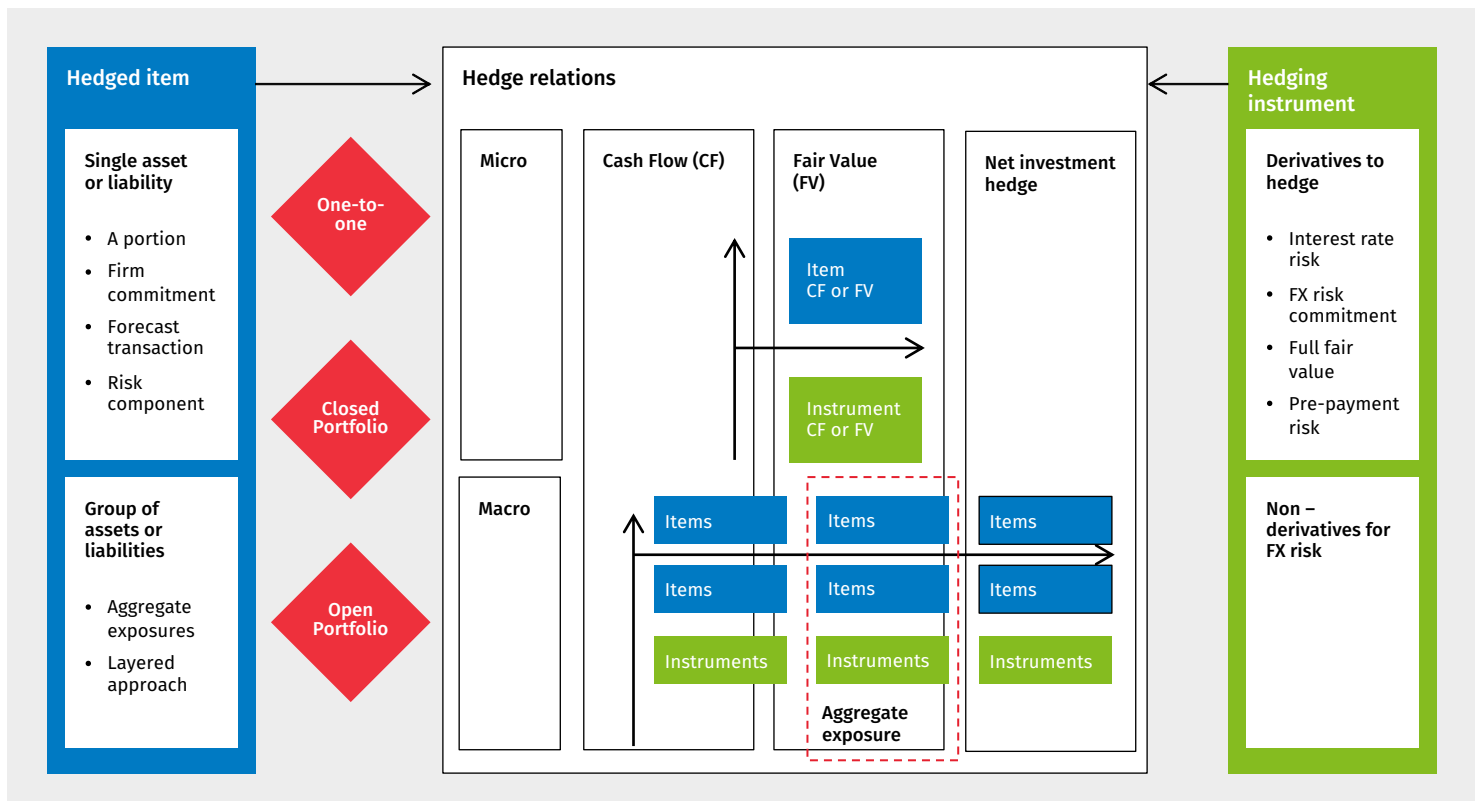
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Wolters Kluwer reported 2023 annual revenues of €5.6 billion. The group serves customers in over 180 countries, maintains operations in over 40 countries, and employs approximately 21,400 people worldwide. The company is headquartered in Alphen aan den Rijn, the Netherlands.

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