

Improve the effectiveness of your hedging activity.

Hedge accounting: More insights, simpler.

Bloomberg Terminal

Risk

Bloomberg

- 03** Complete hedge accounting solution
- 04** Macro fair value hedge accounting
- 05** Last-of-layer hedge accounting
- 05** Key functionalities & features

Complete hedge accounting solution

Bloomberg's market-leading, seamlessly integrated hedge accounting platform provides a full solution enabling financial institutions to comply with the requirements of the hedge accounting and related financial instrument standards. The system facilitates the creation of coterminous hedge documentation, prospective hedge assessment testing to determine if a strategy can be considered highly effective, and measurement of hedge effectiveness under both international and U.S. accounting standards.

Our hedge accounting solution is continually updated as new accounting standard guidelines are published and market practice evolves, to ensure the system is always current. Bloomberg updates the underlying valuation tools as market convention changes, for example inter-bank offered rate transition.

OMS integration					
• Buy side (AIM)		• Sell side (TOMS)		• Third-party OMS	
Pricing and data					
• State-of-the-art models		• Cross-asset library	• Contract data creation	• Valuations	• Real-time & snapshot data
Front office risk <ul style="list-style-type: none">• Intraday pricing & Greeks• End-of-day & on-demand risk reports• P&L Explain• What-if trade analysis• Pre-trade margin• Scenarios & stress testing• Portfolio margin calculations• Lifecycle management• Projected & stressed cash flows• Regulatory analytics (PRIIPS, SIMM)• Excel derivatives & mortgage toolkits	Market risk <ul style="list-style-type: none">• Full revaluation VaR & expected shortfall• Greek sensitivities• Historical, hypothetical & predictive stress tests• Tracking error & relative risk statistics• FRTB regulatory capital• Buy & sell-side regulatory reporting• Pre & post-trade analytics for all risk measures	Credit risk <ul style="list-style-type: none">• Portfolio, obligor & obligation analysis• Early warning/outlier identification• Credit scorecards & benchmarking• Default probability with term structure• Model-implied CDS• Loss given default & recovery• Knowledge date & as-of date analytics	XVA <ul style="list-style-type: none">• Valuation adjustments for OTC derivatives incl CVA, DVA, FVA, MVA & KVA• Counterparty credit risk exposure metrics (PFE)• Regulatory capital calculations (SA-CCR)• XVA/PFE pre-trade analytics - position what-if and CSA what-if• XVA sensitivities	Hedge accounting <ul style="list-style-type: none">• US GAAP & IAS/IFRS• Micro, macro and last-of-layer method• Cash flow, fair value & net investment hedge types• Monthly reporting includes: valuations, single security CVA/DVA adjustments, scenarios and settlement cash flows	Collateral management <ul style="list-style-type: none">• Legal documentation management• Dispute management• Portfolio margin calculations and workflow (IM & VM)• Automated messaging• Initial margin calculations (SIMM, CCP IM)• In system reconciliation• Risk analytics
MARS API					
• Programmatic access		• Cross-asset data snapshot		• System integration	• Custom reporting

Macro fair value hedge accounting

Guidance for macro fair value hedge accounting was not specifically addressed in IFRS 9. Consequently, even when IFRS 9 is adopted for general micro hedge accounting, firms can still elect to apply IAS 39 in respect of macro fair value hedges.

Bloomberg's hedge accounting solution helps users to manage the operational and accounting complexities associated with applying solution accounting to a portfolio of dynamic hedged items that are subject to prepayment risk.

Macro fair value designation tools

- The solution optimizes the allocation and designation of hedging instruments based on expected available asset/liability headroom capacity
- Using actual repayment profiles, the system will revise the hedged item allocation and perform updated effectiveness testing
- Regression analysis can be applied to the designation as a whole on a prospective and retrospective basis
- The solution will generate all the required accounting adjustments including fair value uplift, designation and de-designation amortization profiles over the remaining life of the hedged items

The screenshot shows the Bloomberg Hedge Accounting interface. On the left, a list of hedged items is displayed, including various bonds and loans. An arrow points to the right, where a detailed table of hedging instruments is shown. The table includes columns for Ticker/Product, Description, Asset Class, Notional/Par Ccy/Unit, and Maturity. The hedging instruments are listed with their respective details, such as the issuer (e.g., S&P 500 Index, S&P 400 Index) and the hedging instrument (e.g., S&P 500 Index, S&P 400 Index).

Macro fair value hedging:
Auto-generation of proxy loans.

The screenshot displays the Capacity Test results. It shows a table with columns for Hedged Item, Hedging Instrument, and Capacity. The table lists various hedged items and their corresponding hedging instruments, along with the capacity for each. The results show that the capacity is sufficient for the hedged items.

Capacity test: Validate your hedge allocations against actual repayments.

The screenshot shows the Accounting Adjustments table. It includes columns for Curve Date, Full Fair Value, Fair Value, Periodic Change, Cumulative Change, Net PE Releases, Des Amortization, De-Des Amort, and Total Net. The table lists various accounting adjustments over time, showing the impact of the hedge on the fair value and the amortization of the hedge.

Accounting adjustments:
Fair value uplift, designation and de-designation amortization profiles.

Last-of-layer hedge accounting

Financial accounting standards after ASU 2017-12

For a closed portfolio of prepayable financial assets, an entity may designate as the hedged item a stated amount of the asset that's not expected to be affected by prepayments, defaults and other factors affecting the timing and amount of cash flows.

Criteria

- Closed portfolio of similar items
- Prepayable financial assets or beneficial interest(s) in portfolio of prepayable financial assets
- Probable that bottom layer will remain throughout hedge
- Requires partial-term hedging election

Effect

- Prepayments and defaults are applied to top layer first
- De-designation required if a portion is no longer expected to be outstanding
- If "last-of" layer is impacted before de-designation, hedge accounting ceases
- De-designations result in allocation of basis adjustments to individual assets
- Basis adjustments are proportional to amount de-designated

Key functionalities & features

- Trade information can be imported from trading platforms via API
- Flexible hedge relationship definition for cash flow, net investment and fair value hedges
- Micro and portfolio macro hedge accounting
- Disclosure reports including current/non-current asset/liability breakdown, FX/IR split and OCI release
- Excluded component designations: cost of hedging approach to time value, forward points, and foreign currency basis
- Multiple benchmark curves available
- Regression, scenario analysis and dollar offset effectiveness tests
- Amortization and release schedules
- SOC 1 certification
- Transparent independent valuations and credit valuation adjustments
- Integration with Bloomberg's Multi-Asset Risk System (MARS)

Month-end workflow control with dedicated APIs

HEFF API provides programmatic access to a scalable and modular reporting framework, via WebAPI: a popular interface, ubiquitous in our daily lives. HEFF API is a cost-effective, seamless technology enabling a more rule-based accounting month-end process:

- Schedule automated hedge accounting effectiveness tests and measurement, embedding them in the accounting month-end process
- Set up journal entry rules with programmatic access to accounting events like OCI, cost of hedging component or P&L ineffectiveness
- Obtain greater control of the month-end reporting process: integrating, consolidating and validating data from disparate sources, combined in a cohesive report that fits the firm's precise needs

API example: Create your own allocation logic, programmatically

Designation

Dedesignation

Filter

Mirror

Cached Data

▼

✓ Maturity Date Filter

National Filter

Modified Duration Filter

▼

DV01 Filter

Coupon Filter

Load Data

Filter Data

Start Date

01-01-2021

End Date

01-31-2025

Between

Minimum

-1000

Maximum

0

Between

Data Loaded

Deal Id	Maturity Date	Notional	Modified Duration	DV01	Coupon
SLV81P6P Corp	2039-03-29	10020000	-9.2436	-12006.7211	4.5
SLV81OYV Corp	2029-11-29	10009800	-7.0834	-8352.6191	2.46
SLV81P6P Corp	2038-07-29	10019300	-9.0486	-11659.875	4.36
SLV81P1A Corp	2032-06-29	10012900	-7.6166	-8209.5731	3.08
SLV81P1V Corp	2033-06-29	10013600	-7.7604	-8437.7824	3.22
SLV81P2G Corp	2034-06-29	10014800	-7.9939	-8822.2446	3.46
SLV81P6M Corp	2039-06-29	10020300	-9.3217	-12150.2619	4.56
SLV81P6P Corp	2032-01-29	10012100	-7.4799	-8983.0098	2.92
SLV81P21 Corp	2033-08-29	10013900	-7.8072	-9518.6424	3.28
SLV81P4Y Corp	2037-03-29	10017800	-8.6779	-10996.2475	4.06
SLV81P6D Corp	2031-08-29	10011700	-7.4066	-8860.8993	2.84
SLV81P3T Corp	2036-01-29	10015400	-8.1255	-10037.3348	3.58
SLV81P2J Corp	2034-04-29	10014600	-7.9528	-9752.8027	3.42
SLV81P41 Corp	2036-01-29	10016500	-8.3673	-10452.4205	3.8
SLV81OZP Corp	2030-10-29	10010800	-7.2468	-8614.5471	2.66
SLV81P2A Corp	2034-01-29	10014300	-7.9039	-9669.1197	3.36

Deal Id	Maturity Date	Notional	Modified Duration	DV01	Coupon
SLV81ORJ Corp	2021-01-29	10000000	-0.5124	-516.4871	0.5
SLUC1HS1 Corp	2021-01-20	10000000	-0.5122	-516.2826	0.5
SLUC1HRY Corp	2021-01-25	10000000	-0.5062	-510.1457	0.5
SLV81ORM Corp	2021-03-29	10000200	-0.5055	-509.6706	0.54

API example: Filter your loan exposures by notional, DV01 or coupon.

Bloomberg MARS hedge accounting solution

Ensure compliance with hedge accounting and financial instrument standards (IFRS and FAS).



Automation & transparency

- Flexible hedge relationship definition for cash flow, net investments and fair value hedges
- Cost of hedging approach to time value, forward points and foreign currency basis
- Transparent independent valuations and credit valuation adjustments
- Integration with MARS



Reporting & documentation

- Coterminal hedge documentation
- Disclosure reports including current/non-current asset/liability breakdown, FX/IR split, OCI release
- Amortization and release schedules



Quantitative effectiveness testing

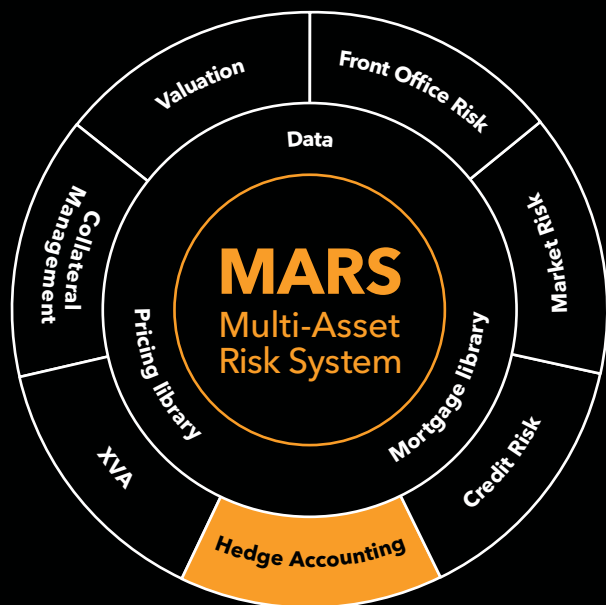
- Prospective and retrospective hedge assessment testing
- Regression, scenario analysis and dollar offset effectiveness



Controls framework

- SOC 1 certification
- Transparent methodologies
- Audit-friendly environment
- Key changes tracked in audit history

MARS Multi-Asset Risk System



MARS provides consistent and consolidated valuation, product lifecycle analysis, market risk, credit risk, counterparty risk and collateral management.

MARS is powered by Bloomberg's world-class pricing library, market data and mortgage cash flow engine, enabling front office, risk, finance and treasury professionals to analyze their trading and investment portfolios, mitigate risk and prepare for the unexpected.

About the Bloomberg Terminal.

Since 1981, business and financial professionals have depended on the Bloomberg Terminal® for the real-time data, news and analytics they need to make the decisions that matter. The Terminal provides information on every asset class — from fixed income to equities, foreign exchange to commodities, derivatives to mortgages — all seamlessly integrated with on-demand multimedia content, extensive electronic-trading capabilities and a superior communications network.



Take the next step.

For additional information, press the <HELP> key twice on the Bloomberg Terminal®.

bloomberg.com/professional

Beijing
+86 10 6649 7500
Dubai
+971 4 364 1000
Frankfurt
+49 69 9204 1210

Hong Kong
+852 2977 6000
London
+44 20 7330 7500
Mumbai
+91 22 6120 3600

New York
+1 212 318 2000
San Francisco
+1 415 912 2960
São Paulo
+55 11 2395 9000

Singapore
+65 6212 1000
Sydney
+61 2 9777 8600
Tokyo
+81 3 4565 8900

The data included in these materials are for illustrative purposes only. The BLOOMBERG TERMINAL service and Bloomberg data products (the "Services") are owned and distributed by Bloomberg Finance L.P. ("BFLP") except (i) in Argentina, Australia and certain jurisdictions in the Pacific islands, Bermuda, China, India, Japan, Korea and New Zealand, where Bloomberg L.P. and its subsidiaries ("BLP") distribute these products, and (ii) in Singapore and the jurisdictions serviced by Bloomberg's Singapore office, where a subsidiary of BFLP distributes these products. BLP provides BFLP and its subsidiaries with global marketing and operational support and service. Certain features, functions, products and services are available only to sophisticated investors and only where permitted. BFLP, BLP and their affiliates do not guarantee the accuracy of prices or other information in the Services. Nothing in the Services shall constitute or be construed as an offering of financial instruments by BFLP, BLP or their affiliates, or as investment advice or recommendations by BFLP, BLP or their affiliates of an investment strategy or whether or not to "buy," "sell" or "hold" an investment. Information available via the Services should not be considered as information sufficient upon which to base an investment decision. The following are trademarks and service marks of BFLP, a Delaware limited partnership, or its subsidiaries: BLOOMBERG, BLOOMBERG ANYWHERE, BLOOMBERG MARKETS, BLOOMBERG NEWS, BLOOMBERG PROFESSIONAL, BLOOMBERG TERMINAL and BLOOMBERG.COM. Absence of any trademark or service mark from this list does not waive Bloomberg's intellectual property rights in that name, mark or logo. All rights reserved. ©2020 Bloomberg. 1215008 DIG 0721