

ALGO ALM FOR IAS 39

Demonstrating hedge effectiveness

Algo ALM offers financial institutions and corporates an unique environment to assess and manage hedge effectiveness before doing business. The software's advanced analytics and decision-support capabilities are designed to be ideally suited for hedging organizations to demonstrate the effectiveness of their hedging strategies, comply with IAS 39 and FAS 133 accounting standards, and minimize future earnings volatility.

Algorithmics



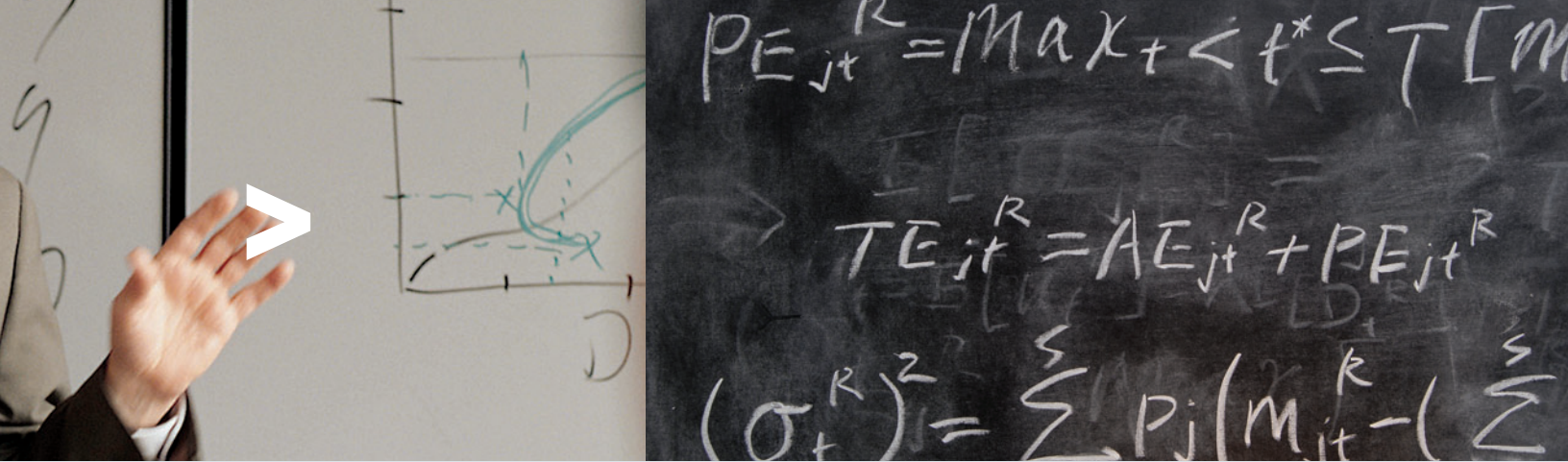
IAS 39 for International Accounting Standard Reporting and FAS 133 for US GAAP introduce a number of complex rules, including the requirement that firms must record hedged items and the associated hedging derivatives at fair value. Algo ALM supports these new standards with an enterprise risk platform for balance sheet professionals. Built on a single, integrated network, Algo ALM is designed to enable financial institutions and corporates to proactively assess and manage financially risky positions and comply with international hedging accounting rules.

Meeting the challenge of IAS 39 compliance

According to international accounting rules such as IAS 39, firms that wish to qualify a derivative position for hedge accounting purposes must ensure compliance at numerous stages within each transaction. These rules state that firms must: specify the hedged item; identify the hedging strategy/derivative; and document the basis for expecting the hedge to be effective in offsetting the designated risk exposure. While documentation can be provided by statistical or other prospective means, prospective testing must be performed on an ongoing basis to justify the continued use of hedge accounting.

As an integrated solution for IAS 39 and other hedging accounting standards, Algo ALM incorporates multiple tasks designed to address compliance requirements. Hedging organizations can utilize Algo ALM as a tool to facilitate fair value calculations, asset and liability management, documentation support, hedging simulations, hedge accounting support, and mark-to-market. An interactive application, Algo ALM makes output available in user-configurable tabular and advanced graphical displays. Reports may be viewed online, printed, exported to spreadsheets, or stored in reporting databases.

Hedge accounting support is one function of Algo ALM, an integrated solution designed to support a firm's enterprise risk and asset/liability management functions. Hedging organizations can utilize the functionality within Algo ALM to aggregate, measure, monitor, and restructure the market and liquidity risk of the balance sheet according to their specific needs. A single, analytical framework supports earnings and value with common scenarios, growth and reinvestment assumptions, as well as common cash flow generation and valuation models, enabling balance sheet professionals to gain a comprehensive assessment of earning sensitivity and future market valuation.



KEY BENEFITS AND FEATURES

Demonstrates hedge effectiveness

Algo ALM has the capacity to provide a forward-looking, scenario-based risk framework for prospective testing, an important step for firms looking to qualify for and maintain entitlement under hedge accounting rules. Firms that are unable to prove hedge effectiveness risk losing this entitlement for their hedge positions, and thus face increasing earnings volatility due to a misalignment of accounting treatment between hedged items and their hedging derivatives.

Provides front-office decision support

Algo ALM helps firms optimize business processes with respect to hedging by enabling them to perform prospective testing, and to incorporate the constraints implied by the accounting rules prior to transacting in hedging instruments.

Optimizes hedging strategy

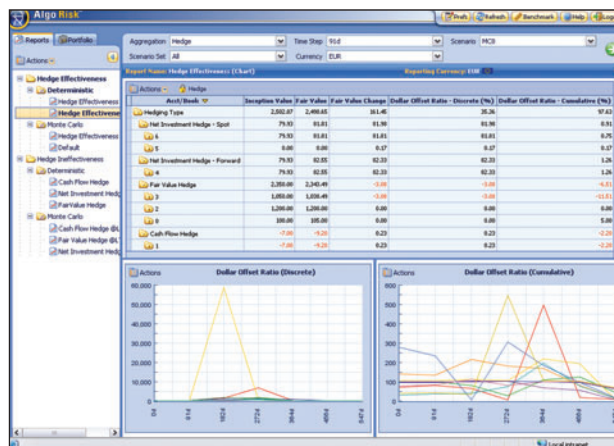
Algo ALM is designed to enable firms to identify hedging opportunities and to optimize their risk-return-earnings profile through a dynamic trade-off analysis of hedging costs and benefits. Algo ALM can help a firm to rebalance its hedging positions and meet target objectives through an appropriate mix of debt and derivative instruments, while satisfying its risk tolerances and liquidity constraints.

Offers comprehensive asset and liability framework

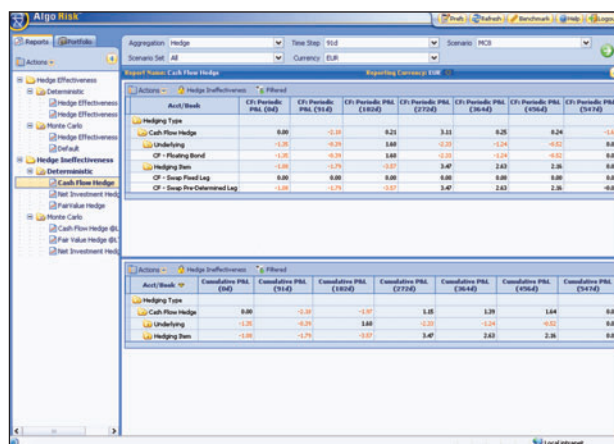
Algo ALM provides a robust ALM solution designed to effectively measure and monitor interest rate exposure across the enterprise in order to manage a firm's value-at-risk, earnings-at-risk, and cashflow-at-risk profiles through time. Firms may be able to enhance financial performance by reducing earnings volatility and improving cashflow forecasting.

Supports advanced tools and analytics

Algo ALM supports multi-period simulation of values, earnings, hedge ratios, and cash flows for user-defined stress testing and probabilistic (Monte Carlo and historical) risk assessment. Analyses can appropriately incorporate linear and non-linear instruments spanning all currencies, term structures, and other risk sources. The software also allows for flexible aggregation along user-defined grouping dimensions, provides a broad array of standard and user-configurable hedging metrics, and facilitates the calculation of an optimal hedge ratio using the dollar offset method.



Hedge effectiveness testing



Hedge ineffectiveness measurement

About Algorithmics

Algorithmics is the world's leading provider of enterprise risk solutions. Financial organizations from around the world use Algorithmics' software, analytics, and advisory services to help them make risk-aware business decisions, maximize shareholder value, and meet regulatory requirements. Supported by a global team of risk experts based in all major financial centers, Algorithmics offers proven, award-winning solutions for market, credit, and operational risk, as well as collateral and capital management. Algorithmics is a member of the Fitch Group.



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