

Practical approaches to financial year end challenges for treasuries for COVID-19

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Presenters



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Introduction

The market environment has changed:

- **The low volatility and vibrant economic growth has been disrupted**
- **Significantly impacting hedging programs and decisions.**
- **Needing a refresh in mindset – increase focus on the underlying assumptions – particularly exposures**

What about hedge accounting?

- **Existing hedge relationships established during a time of low volatility where forecasting future transactions and exposures were relatively simple need to be assessed.**

The purpose of today is to consider some practical approaches to overcome the upcoming financial year end challenges for treasury issues due to the disruptions caused by COVID-19.

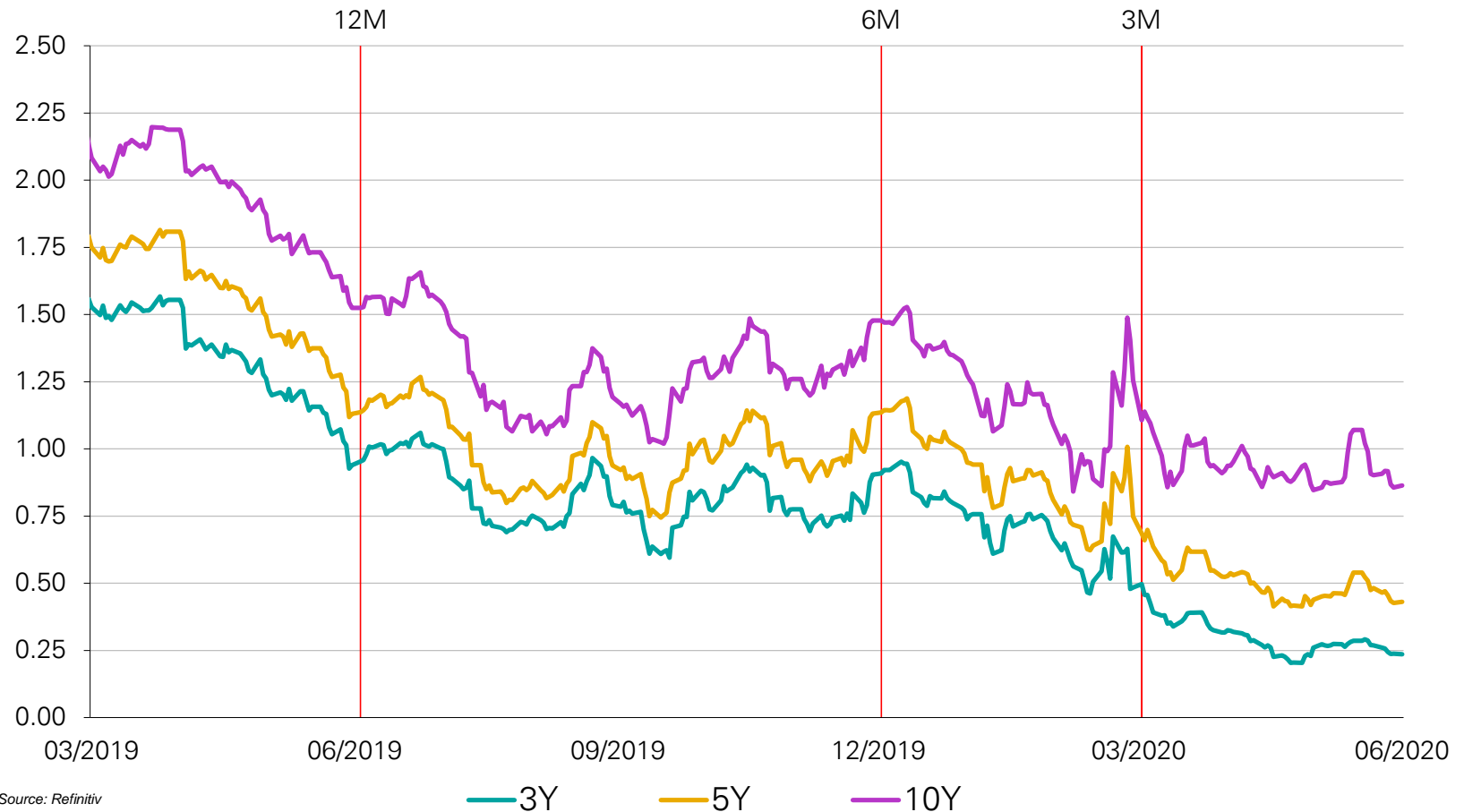


Financial Markets Update

Financial markets update

Australian Interest Rates (Yield %)

Δ Bps	12M	6M	3M
10Y	-66	-61	-24
5Y	-71	-70	-25
3Y	-72	-67	-26



Source: Refinitiv



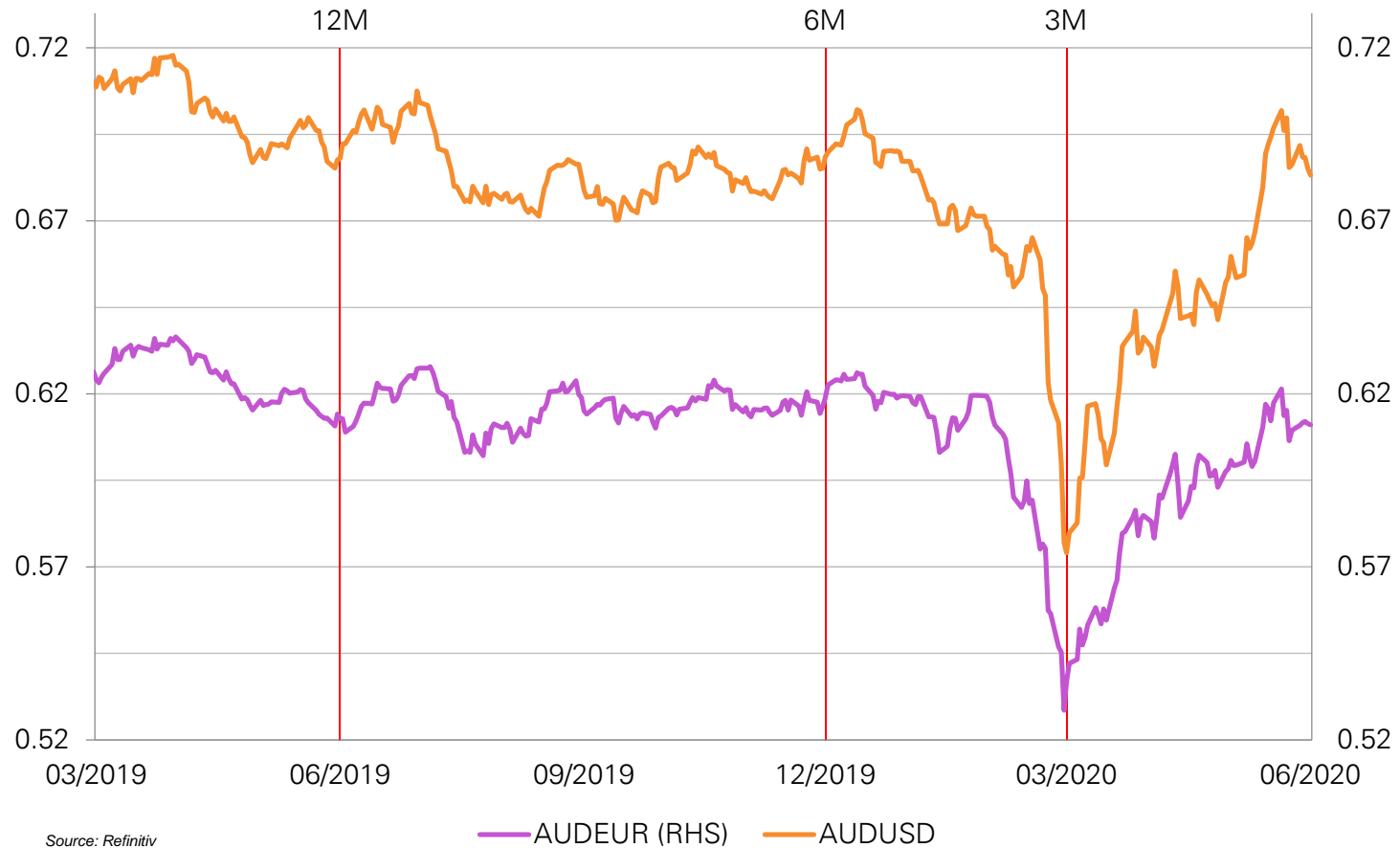
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Financial markets update

FX AUD/USD & AUD/EUR



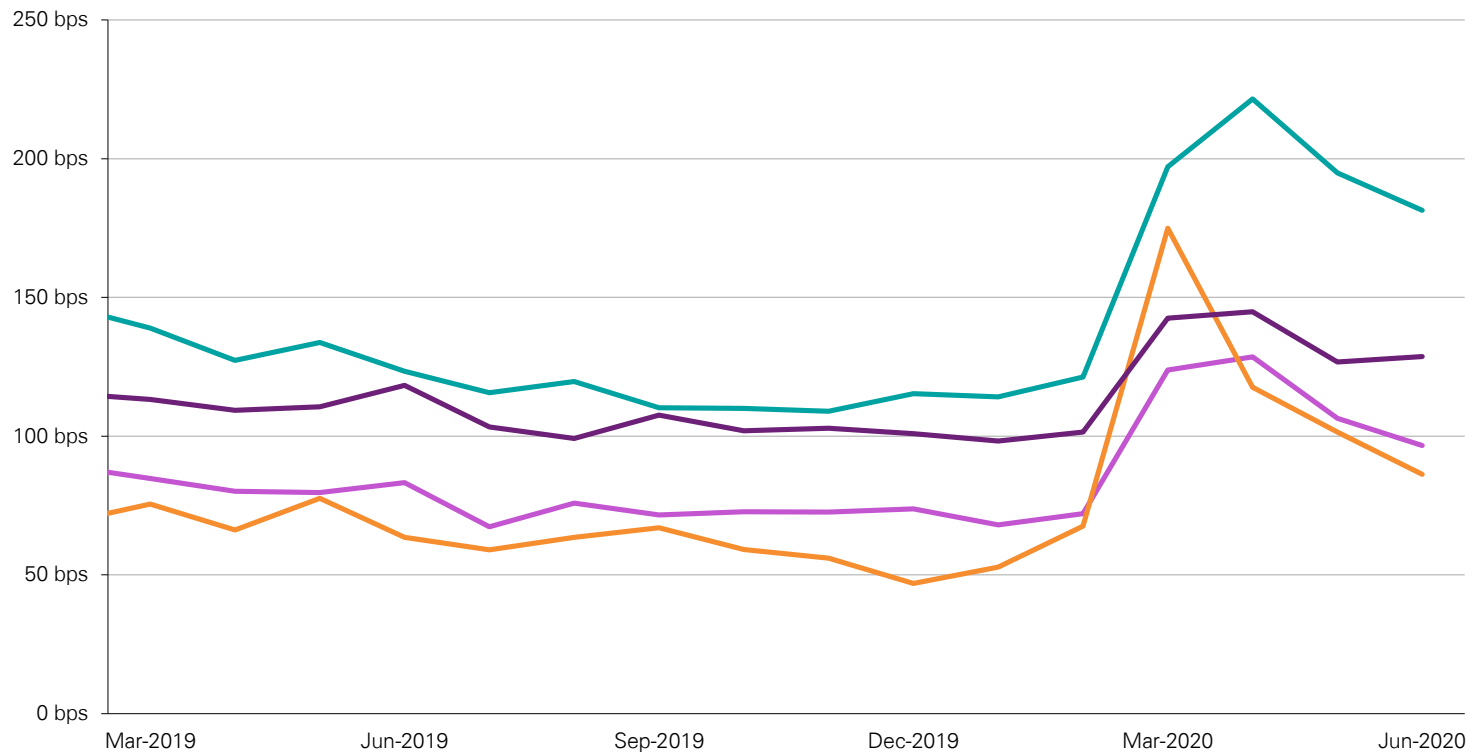
Financial markets update

FX AUD/GBP & AUD/NZD



Financial markets update

Credit Default Swap Spreads

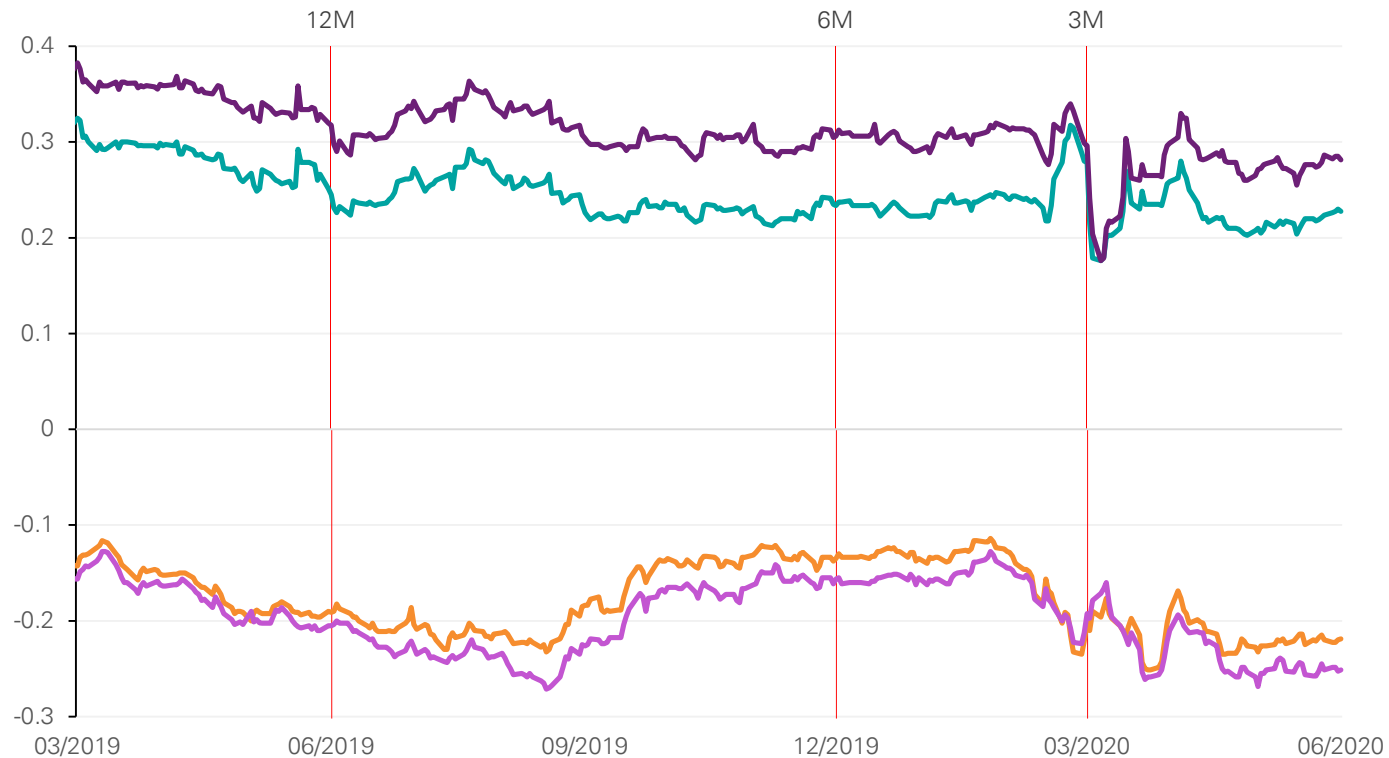


Source: Refinitiv

AUD Financial 5 YR ITRAXX Australia 5 YR A AUD 5Y BBB AUD 5Y

Financial markets update

Currency Basis Spreads



Source: Refinitiv

AUD/USD 5Y AUD/USD 10Y EUR/USD 5Y EUR/USD 10Y



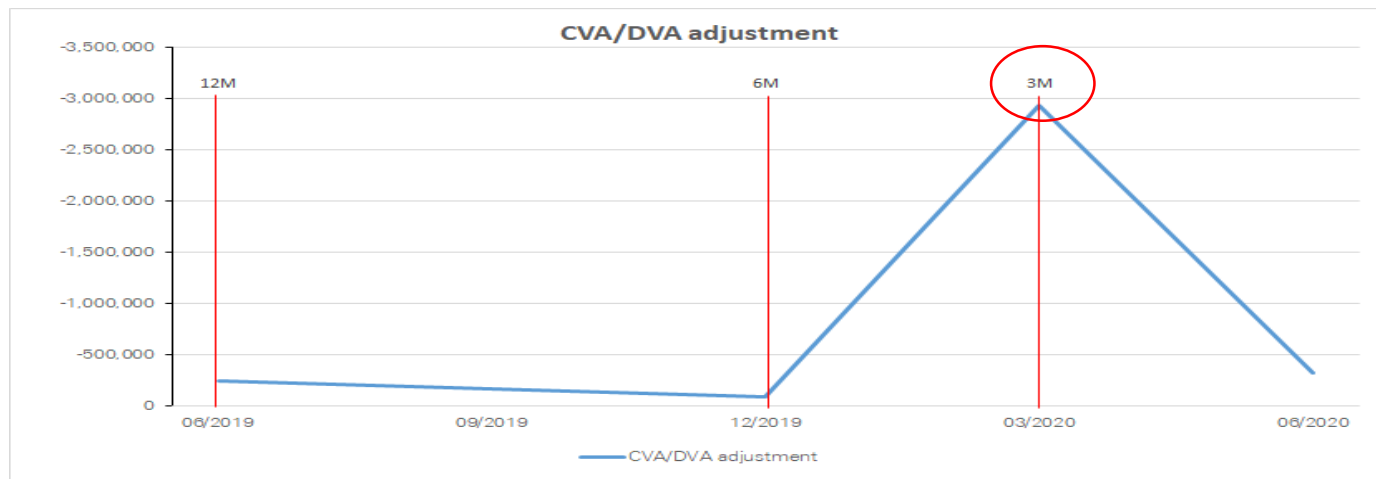
Treasury Accounting

Treasury Accounting

Key audit focus: CVA/DVA adjustments

Sample deal: Pay AUD \$136.584m @ 4.16%, Receive USD \$100m @ 4.02%, maturity date: 2 July 2028

Date	Without CVA/DVA	Inc CVA/DVA adjustment	CVA/DVA adjustment
30-Jun-19	2.865m	2.614m	-0.251m
31-Dec-19	2.433m	2.339m	-0.094m
31-Mar-20	36.029m	33.091m	-2.938m
25-Jun-20	13.939m	13.614m	-0.325m



Assumptions: The CVA/DVA calculation has been calculated based on the PFE (potential future exposure) method. CDS curves: Bank credit rating of AA- and corporate curve rating is BBB

Treasury Accounting

Key audit focus: highly probably forecast transactions

Practical approaches:

- 1) Understand and discuss the assumptions behind the forecasts through discussions across the relevant business units**
- 2) Any changes in the timing of cash flows of the hedged item, determine how the change in timeframe impacts the associated derivative**
- 3) Continuously look at the way forecasts are done in line with business conditions changing rapidly as market volatility drives business conditions**

Consequences: Increased hedge ineffectiveness and P&L volatility. Discontinuation of hedge relationships.

Potential Action: Reset FX hedges, rebalance hedge relationships

Treasury Accounting

Key audit focus: Financial Instruments Disclosures

AASB 7 requires disclosures to enable users of financial statements understand how an organisation manages their credit risk, market risk, and liquidity risk.

A qualitative statement addressing the risk management approach is required. The auditors will be looking to ensure this reflects current practice given COVID-19.

Practical approaches to updating disclosures:

- **Change in forecasting periods, this may affect your liquidity risk disclosure**
- **Change in treasury policy may affect your credit risk and market risk disclosure**

Key highlights and takeaways

- **Review hedge relationship structure for hedge accounting continuance**
- **Understand how changes in the highly probable forecast requirement may impact the ability to apply hedge accounting**
- **Evaluate the impact of counterparty and its own non-performance risk in measuring the fair value of its derivative**
- **Each hedging relationship is subject to a set of unique risk factors that should be assessed no matter how volatile the market is**



Open Forum – Q&A



Thank you



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