AFLAC Hedge Accounting with SAP FAM
Agenda

- At A Glance
  - AFLAC
  - COMPIRICUS
- SAP FAM Journey
- Hedge Accounting
- Lessons Learned
Abbreviated History of Aflac

- **1955**: Founded by Brothers John, Paul and Bill Amos
- **1970**: John Amos visits world fair in Osaka, Japan
- **1974**: Aflac becomes licensed to sell insurance in Japan
  - Aflac listed on NYSE (Ticker: AFL), opening at $7.25
- **1990**: Dan Amos becomes CEO
- **2000**: The Aflac duck gets introduced in the US
- **2003**: The Aflac duck gets introduced in Japan
  - Aflac becomes industry leader in Japan
- **2018**: Market leader in the US and Japan
  - $21.7bn in revenues (2017)
    - Thereof ~75% from Japan
  - $4.6bn in net earnings (2017)
  - Fortune 500 company with market cap of ~$34bn
The Japan-Aflac Connection…

**What most of you know:**
- The Aflac Duck
- #1 supplemental health care provider in the US

**What many of you don’t know:**
- The Japan Aflac Duck
- #1 Japan insurance co. by number of policies
- >75% of Aflac’s business in Japan
COMPIRICUS at a Glance

Our Company
- Founded in 2009 as a team of experienced consultants and software developers
- Committed to Services and Solutions for Treasury, Asset & Risk Management
- Offices in Frankfurt, Dusseldorf (Germany) and Boston (USA)
- Preferred Partner for SAP FAM/TRM, service and content provider for the Spanish, Italian and US statutory reporting for insurance companies

Portfolio
- Products, Solutions and Services for
  - Asset, Risk and Treasury Management
  - International Accounting
  - Cash and Liquidity Management
  - Methods for Asset Management
  - Treasury Controlling & Compliance
  - Internal and External Reporting

Your Benefits
- Excellent consulting with more than 20 years of experience in the area of management and accounting of financial products
- Holistic solutions and services related to Treasury and Asset Management from one single source
- You benefit from our portfolio of innovative solutions for e.g. Electronic Bank Statement, Capital Asset Controlling interfaces to trading systems (360T, Bloomberg, SimCorp etc.)
Simplify your day-to-day business with COMPIRICUS’ proven SAP Treasury and Asset Management Solutions.
Agenda

- At A Glance
  - AFLAC
  - COMPIRICUS

- SAP FAM Journey

- Hedge Accounting

- Lessons Learned
Business Drivers

- **Two regional IT solutions**
  - Japan was on an in-house developed solution which had reached its end of life
  - U.S. was on a vendor platform

- **Duplication of assets**
  - Consolidated reporting for U.S. GAAP, STAT and TAX
  - Local reporting for FSA, JGAAP and JTAX

- **Duplication of middle office functions**
  - Security Master
  - Transactions
  - Pricing
  - Corporate Actions

- **Two regional IT solutions**
- No solution for derivatives and FX FWD
- No hedge accounting solution
- No data warehouse solution for a single version of the truth
- Limited functional coverage for complicated investment products
  - Bank Loans, MML, CML, TRE, Infra. Structure Debt
  - Alternatives
## SAP FAM Business and Functional Benefits

<table>
<thead>
<tr>
<th>Instrument Coverage:</th>
<th>JP Legacy</th>
<th>US Legacy</th>
<th>SAP FAM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities and Bonds (e.g. Corporate Bonds)</td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td>Derivatives (e.g. FX Options)</td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td>Alternatives (e.g. Bank Loans, Middle Market)</td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accounting Functionlty:</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>US: GAAP, STAT and TAX</td>
<td></td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Japan: FSA, JGAAP and JTAX</td>
<td>✔️</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedge Accounting</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Integration &amp; Automation:</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ledger Posting Integration (SAP FI)</td>
<td>✔️</td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td>NAIC Regulatory Reports</td>
<td></td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>STP Trade Posting</td>
<td></td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Cash and Holdings Reconciliation</td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td>Reference Data Refresh</td>
<td></td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Others:</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Scalability</td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td>Commercially Viable Software</td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
</tbody>
</table>
Challenges

- Multi-Basis Accounting – 2 GAAP, 2 Regulatory, 3 Tax related valuation areas
- Staged implementation by region transition to global process/system
- Differing requirements between entities (lot level vs. average cost)
Agenda

- At A Glance
  - AFLAC
  - COMPIRICUS

- SAP FAM Journey

- Hedge Accounting

- Lessons Learned
Summary of Hedge Accounting requirements

- Hedge USD investments for FX risk (in Japan subsidiary)
- Hedge instruments are FX-Forwards and FX-Options (Collars)
- Hedging is based on lots, maintained in the US Valuation Areas
- Fair Value Hedge Accounting
- One instrument (Forward / Collar) is used to hedge multiple lots
- Ability to adjust hedge accounting for early termination of hedge instrument
- Calculate and post qualifying hedge vs. freestanding portions
- Robust reporting
- Requirements varied by valuation areas
Foreign Exchange Hedge

- **Hedge Instrument**
  - FX Forward
  - FX Option (plain vanilla, as collar)
  - Cross Currency Swaps

- **Hedged Item**
  - USD Straight Bonds (Available for Sale) (FX risk is hedged, based on the Market Value)
  - USD Equity Investment (Available for Sale) (Market Value of the whole trust, not on the separate items)

**Bond Groups only contain Items of the same group.**

- **FX-Forward:**
  - Valuation posting split into effective part and free standing part (based on designated volumes)

- **Bond:**
  - Hedge adjustment posting based on spot calculation (change of FX rate during the evaluation period (based on designated market value)

- **Adjustment of hedge relationship (market value of bond positions)**
Customization

Hedge Workbench

- Processing of Bond decrease
- Early termination of Hedge Relationship
- Manage active hedge relationships
- Mass processing of effectiveness tests
- Designated BW data source
Agenda

- At A Glance
  - AFLAC
  - COMPIRICUS

- SAP FAM Journey

- Hedge Accounting

- Lessons Learned
Lessons Learned

Data, Data and Data:
- 60% of the project involved data
- Single version of the truth was far from the truth
- Data sprawl - Multiple locations and different formats
- Sourcing historical data
- Data conversion and mapping is never simple

Resource Challenges:
- Balancing Day-Time Job versus Project Work
  - To write business requirements
  - To develop test cases
  - To document KOP
  - To perform UAT
  - To perform parallel testing

Others:
- Difficulty of retro-fitting Japan accounting to work for U.S. accounting
- Paradigm Shift - Going from regional processes to global processes
- SAP FAM is highly configurable, but it comes with a price – “It’s a complicated system”
- Limited FAM experts
- Accounting system migration is a BIG effort!!!! Better to over plan the work and overestimate the time!
HA for Positions: based on hedge amortized cost

SAP standard functionality for FVH (investment)

Book value equals Market Value, separation of valuation (OCI and P&L components)
COMPIRICUS Online

Visit our website and our social media channels
(Click on symbols)

www.compiricus.com
www.compiricus.de
Simplify your day-to-day business with COMPIRICUS’ proven SAP Treasury and Asset Management Solutions
Thank you!