



# ACWA Power Reduces Time Spent on Key Hedge Accounting Process from Weeks to Hours with FINCAD

## Highlights

### Client

ACWA Power International

### Business objectives

- Introduce sophisticated hedge accounting and valuation capabilities
- Reduce time spent on hedge effectiveness testing
- Simplify process of managing auditor requirements

### Requirements

- Flexible hedge accounting solution for managing a portfolio of more than 350 trades
- Comprehensive hedge effectiveness reporting for improved business decisions
- Strong documentation capabilities for addressing auditor queries

### FINCAD Solution

- FINCAD's Hedge Accounting Insight

### FINCAD features

- Easy-to-use, cost-effective derivatives valuation and hedge accounting solution
- Ability to conduct fast and accurate hedge effectiveness tests
- Automated, detailed reports that run at the click of a button

### Success factors

- Reduced time spent on setting up hedge relationships from two weeks down to two hours
- Instilled greater efficiency into the hedge accounting workflow with automated, repeatable processes
- Established comprehensive documentation for quick and easy answers to auditors' queries

## Background

ACWA Power is a leading developer, investor, co-owner and operator of power generation and water desalination plants with presence in 11 countries, including the Middle East, North Africa, Southern Africa and Southeast Asia regions. ACWA Power's portfolio, with an investment value in excess of USD 32 billion, can generate 22.8 GW of power and produce 2.5 million m<sup>3</sup> /day of desalinated water to be delivered on a bulk basis to state utilities and industrial majors on long term off-take contracts under Public-Private-Partnership, Concession and Utility Services Outsourcing models. Headquartered in Saudi Arabia, the organization has an investment portfolio of more than 35 assets throughout the world.

ACWA Power's finance department is split between its offices in Riyadh, Saudi Arabia and Dubai, United Arab Emirates. Within finance, there are several sub-departments, including: financial accounting, financial reporting, tax, insurance, portfolio management, ERP, corporate planning, information technology and related services for its businesses. The services aspect of the business provides technical accounting and advisory services to ACWA Power's group of companies, comprised of subsidiaries, associates and joint venture companies.

## Situation

ACWA Power's finance team manages the organization's entire derivatives portfolio executed by the group entities. This consists of providing related support for hedge effectiveness testing, quarterly/monthly mark-to-market valuations and managing auditor requirements. The organization trades derivatives solely for hedging purposes, pursuant to its risk management strategies.

The majority of ACWA Power's joint venture companies are domiciled in Saudi Arabia, however the organization is rapidly expanding business to UAE, Oman, Jordan, Bulgaria, Morocco, South Africa, Turkey, Egypt and Vietnam. Since most of these companies have contracted floating rate loans with their respective lenders, they rely on ACWA Power for assistance with interest rate hedging. ACWA Power's strategy is then to hedge any market interest rate variability by entering into interest rate swaps, effectively converting floating exposures into fixed rate exposures. From there, the organization is able to designate cash flow hedges for its group companies.

ACWA Power also deals in foreign currencies, as some of its subsidiary companies that are based in regions such as Morocco, Jordan, South Africa or Turkey are currently experiencing a great deal of volatility in the FX markets. To help mitigate these foreign currency exposures, the organization trades FX forwards, which are then designated into cash flow hedge relationships.

## About FINCAD

An established leader with more than 25 years of experience, FINCAD provides innovative and trusted financial analytics software to organizations worldwide. With deep market understanding, a client-centered business approach, and unmatched quantitative and software engineering expertise, FINCAD is uniquely positioned to lead the market in enterprise valuation and risk technology. FINCAD serves more than 1,000 organizations across the globe. To learn more about FINCAD's award-winning solutions, please visit [fincad.com](http://fincad.com).

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## Solution Needs

ACWA Power required a robust hedge accounting solution that could help them accurately and efficiently manage a portfolio of more than 350 interest rates swaps and FX contracts. Another requirement was a solution that would be sophisticated enough to support the organization's forward-looking plans to enter into more complex derivatives such as interest rate collars, caps and floors, and options instruments. ACWA Power also wanted the ability to set up proxy hedges and incorporate sophisticated benchmark indices and rates.

## FINCAD's Solution

Following a comprehensive review of products in the marketplace, ACWA Power selected FINCAD's Hedge Accounting Insight, which offers firms a straightforward, cost-effective solution for derivatives valuation and hedge accounting. The web-based solution helps organizations take control of hedge accounting documentation and complex hedge effectiveness testing, and reduce operational risk associated with restating financials.

## The Results

**Greater Consistency:** Utilizing FINCAD has assisted ACWA Power in establishing greater consistency in their hedge accounting workflow. "FINCAD gives us a reliable platform for running hedge effectiveness tests," commented Pramitha Ranshika, Executive Manager - Accounting, Reporting & Treasury Operations, ACWA Power Group. He continued, "Conducting these tests could easily demand numerous manual hours given that we have more than 350 trades. However, the FINCAD solution allows us to define a process and make it repeatable, helping us introduce greater efficiency and enforce consistency across all of our projects."

**Time-savings:** Umair Shahid, Manager of Financial Accounting and Reporting, elaborated on the time-savings brought about by utilizing the FINCAD solution. "Without FINCAD, important tasks such as setting up a SIBOR hedge effectiveness relationship, testing it, and generating the valuations would have taken two weeks to accomplish. However, using FINCAD these tasks are completed in a matter of a couple hours. This is an example of just one project, so consider the potential impact of applying this approach across other projects. The time savings have been remarkable," said Umair.

**Simplified Administrative Tasks:** FINCAD's Hedge Accounting Insight's strong documentation capabilities have reduced the time ACWA Power finance staff spends on administrative tasks such as relaying derivatives trading results to their subsidiaries, and addressing auditor queries. "External auditors in particular are very focused on hedge effectiveness because it tightly correlates with accounting results. Our auditors are comfortable with our use of FINCAD, and have full trust in the calculations the solution delivers," stated Pramitha.

**Straightforward Interface:** Umair and his team have been pleased to find that the FINCAD solution offers ease of usability. "The interface is quite user-friendly. We're able to easily upload trade data and, from there, the FINCAD tool will automatically generate accurate results via market data that it captures," stated Umair.

**Robust Reporting:** ACWA Power has also benefitted from comprehensive hedge effectiveness reporting. "The reports generated by FINCAD are detailed, and easily understood by our internal users, as well as our internal and external auditors. Making any necessary amendments to our underlying profiles is easy," concluded Umair.