Fair Value Hedge Accounting Checklist

- [ ] Identify prospective portfolio of prepayable, fixed income instruments for which hedging is intended
- [ ] Segment the portfolio into buckets of similar instruments – size, coupon, term to maturity, credit quality, geography, new/seasoned, payment timing and payment frequency.
- [ ] Conduct “similar assets” test to qualify each basket as being an eligible “hedged item.”
- [ ] For each basket, estimate the expected prepayment and/or default progression to establish an upper limit of notional derivative coverage.
- [ ] Identify the appropriate hedging derivative to achieve the intended degree of risk mitigation.
- [ ] Validate that the hedge strategy is consistent with current risk policies and modify the risk policy as necessary.
- [ ] Draft hedge designation memo to define the hedged risk, risk management objective, hedging instrument, hedged item, method for assessing effectiveness and financial statement impact.
- [ ] Engage key operations personnel – Treasury, Accounting, Lending, Internal Audit, Risk Management and consultants (as applicable) – for preliminary meeting on last of layer method.
- [ ] Establish tactical guidelines relating to the process and frequency of reviewing and revising hedge coverage.
- [ ] Present hedge strategy to the Risk Committee and/or Asset Liability Committee or other stakeholders for approval.
- [ ] Engage Auditor and/or Regulator for approval of the hedge methodology and the hedge designation memo, and revise if appropriate.
- [ ] Execute the derivative(s)* with the derivatives counterparty, and finalize the hedge designation memo with actual terms for the hedge relationship.
- [ ] Value all derivative positions, perform effectiveness assessments, and generate journal entries and disclosure amounts for each accounting period-end.

*Assumes NCUA approved derivative use and ISDA already established with counterparty.

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