



CLIENT:	COCA-COLA AMATIL (CCA)
PROBLEM:	CCA was actively seeking a treasury management solution to assist in meeting all requirements for IAS 39/AASB 139 compliance. The client required automated documentation, effectiveness testing and reporting functionality that enables valuations of external transactions.
SOLUTION:	AvantGard Quantum. CCA chose to further its relationship with SunGard and extend its use of the AvantGard Quantum solution by acquiring the hedge accounting module. A structured approach to the compliance project was adopted in conjunction with SunGard.
RESULT:	AvantGard Quantum's hedge accounting module has been utilised since the AASB 139 transition took place for CCA, being January 1, 2005. During a half year audit, approximately twelve different types of hedge relationships were created and now exist in the system. All documentation, effectiveness testing and accounting treatment were passed as compliant by the client's external audit firm.

ABOUT COCA-COLA AMATIL

Coca-Cola Amatil and its subsidiaries carry on the operations of the CCA Group, which principally involve the manufacture, distribution and marketing of category-leading brands in Carbonated Soft Drinks ("CSDs"), bottled water, sports drinks, canned fruit and ready-to-eat packaged fruit snacks, jams and spreads.

CCA is one of the largest bottlers within the Coca-Cola System, and the largest CSD bottling company in the Asia-Pacific region. The Company operates in six countries: Australia, New Zealand, Fiji, Papua New Guinea, South Korea and Indonesia. The Company manufactures, distributes and markets Non-Alcoholic Ready-To-Drink ("NARTD") beverages, principally the trademarked products of The Coca-Cola Company ("TCCC"). CCA also manufactures and sells a portfolio of its own beverage brands in Australia and New Zealand.

The Company's key beverage brands include: 'Coca-Cola', 'Vanilla Coke', 'Diet Coke', 'Coca-Cola Light', 'Fanta', 'Sprite', 'Lift', 'Lift Plus', 'Schweppes', 'Powerade', 'Fruitopia', 'Nescafe', 'Nestea', 'Frestea', and now SPC, Ardmona, IXL and Goulbourn Valley. CCA is the leading supplier of CSD in each of its six markets. The Company's goal is to become the supplier of choice for all customers in the categories in which it operates.

The role of treasury within CCA is to manage the financial risks and requirements of the group in accordance with CCA board approved policies. This includes interest rate and foreign exchange risks, liquidity and funding requirements, and credit risks associated with external financial transactions. Responsibility for the global treasury operations of the CCA group is centralised in Sydney.

WHY AVANTGARD QUANTUM?

AvantGard Quantum offered CCA the flexible tools required to achieve compliance with the new accounting standards. When utilised with SunGard's AvantGard Quantum treasury engine, the hedge accounting module would allow the reporting of hedge gains and losses on a fair market value basis. The system's hedge tracking and linking functionality brings exposures and hedging transactions together, and automatically creates the accounting entries for each type of hedging relationship.

CCA's relationship with SunGard dates from August 2000. Due to prior experience with the AvantGard Quantum system, and specifically the implementation of hedge accounting for IAS/AASB compliance, treasury systems accountant, James Azar, joined CCA to assist the company through its own transition. It was important to James that CCA partnered with a vendor capable of providing appropriate levels of support as well as the breadth of system functionality required.

IDENTIFYING THE PROBLEM: THE COMPLIANCE CHALLENGE

For corporate treasurers the introduction of the new International Accounting Standard, IAS 39/AASB 139 in 2005 means that all derivative instruments must be recognised and measured on the balance sheet at fair value. The key requirements for compliance include strict guidelines on hedge documentation, assessment of hedge effectiveness and accounting.

Here the treasury management system plays a significant role, as it provides users with the ability to meet those responsibilities obligatory under the new standards.

CCA anticipated that the new standard would create some inflexibility in risk management. However, through thorough planning, research and accountability it would be possible for the treasury area to achieve the same results, or better, under this new standard.

Companies bringing compliance into the heart of the business should be aware of ensuing

changes in corporate culture. Included will be improved accountability, new levels of performance measurement and more transparent internal and external reporting. Individuals both within treasury and across the enterprise will be better positioned to judge value strategies and performance against strict and complex IAS criteria.

Part of the importance of derivatives stems from the management of risk via the financial engineering of portfolios. Perhaps the most challenging consequence of IAS 39 is that firms that tend to hedge portfolios of financial assets and liabilities rather than individual components. The portfolio must now drill down, linking a hedge to each component rather than to the portfolio as a whole. The only exception is when all portfolio

items are nearly identical in terms of risk and maturity dates, but this is very rarely the case.

If companies are to continue to hedge using the financial engineering of portfolios approach, most of the hedge relationships will not qualify for hedge accounting. Therefore any gains and losses resulting from the revaluation of any derivative hedges will not only affect earnings, but will also cause accounting volatility due to the fluctuation in rates and market prices. IAS 39 compliance requires the realignment of reporting systems that will demand vast streams of new and additional data. It was essential to understand where the key data deficiencies lay, and what information could be extracted from existing systems. It was also important to identify significant information gaps and convert them to an IAS compliant format. CCA has been able to address these issues by implementing appropriate measures using Crystal reporting and other AvantGard Quantum reports.

Introduction of the new accounting standard would result in additional activity for CCA, including:

- Documentation Management (Policy, Procedures, Hedge Compliance wording)
- Additional input of hedges in hedge relationship deals and linking them to underlying Exposures
- Effectiveness testing – Retrospectively and Prospectively
- Continuous HR management in relation to deals being offset
- Additional management accounting of valuation of derivatives in balance sheet, Equity or any Profit and Loss impact.
- Management Reporting in relation to the impact of IAS 39
- Training , additional cost of independent advice, system upgrades



PRIORITISING

CCA's first priority was to achieve hedge accounting compliance for all outstanding deals relating to foreign exchange and interest rate hedging. Any deals that did not qualify were restructured to ensure that there was no impact or volatility in the profit and loss account.

Learning the language of IAS 39 demands a training environment that combines knowledge transfer with the ability to address skills, attitudes and motivation.

CCA deemed it necessary for front office staff to be trained in the creation of specific hedge relationships to suit a specific hedged item or exposure. Hedge documentation templates had to be pre-defined and approved by an external auditing firm and procedures put in place for inputting hedges to achieve compliance in accordance with that documentation. CCA's treasury accountant and management accounting team were responsible for managing and reporting any significant impact to the financial accounts.

Having a number of different types of hedging relationships, each with a pre-defined, compliant document tailored for that particular deal, it was necessary for CCA to set up each deal in AvantGard Quantum in a specific way to achieve effectiveness. Procedures were put in place to assist with the input of deals in a specific Hedge Relationship.

"Implementation of a flexible system such as AvantGard Quantum's hedge accounting module assisted in handling the broad range of activity resulting from the compliance project."

CCA treasury systems accountant, James Azar

PLANNING

Planning was central to the success of the project. CCA appointed James Azar as in-house IAS 39 compliance manager and accountant. James oversaw and co-ordinated the project to ensure compliance to the new standards. This included all aspects of the treasury management system, documentation and audit.

In addition, a team consisting of members of the treasury and procurement departments was established, each responsible for their own department's role in achieving compliance but working hand in hand to this end. For twelve months the team worked with the accounting department, some senior management and with SunGard to ensure that integration to CCA's operating system would be as smooth as possible. Advice was also sought from industry experts and auditing firms, and some assistance obtained from large financial institutions.

Both before and during the transition to IAS 39 compliance CCA worked closely with its external auditors. The most important hedge accounting relationships relating specifically to foreign exchange, interest rate and futures hedge documentation were agreed with the auditors for deals outstanding as at 31 December 2004.

What were some of the questions that CCA needed answered?

- How do we accommodate the additional activity within group treasury?
- What changes will need to be made to our internal procedures?
- What alternatives exist to capture different hedge types?
- How do we ensure that we meet the requirements of the rulings, given evolving interpretations and options?
- Do we fully understand the accounting, economic and legal ramifications?
- How do we accomplish integration with our operating system with minimal impact?
- How can we best turn the mandatory task of compliance to our advantage?

“CCA is well on its way to achieving full compliance through an effective and efficient transition, executed via the use of in-house experts and industry consultation with minimal cost and disruption.”

CCA treasury systems accountant, James Azar

A mini-audit, conducted six weeks prior to half year end, helped to facilitate a smooth half year. All documentation and accounting treatment examples from AvantGard Quantum were forwarded to the external auditors for review. The auditors were also provided with a demonstration of the hedge accounting module to ensure compliance.

Deals that did qualify for hedge accounting were documented (using the templates approved by external auditors) and then linked accordingly. These hedge relationship deals were vigorously tested for effectiveness before and during half year end.

All business units locally and overseas were made aware of any pending procedural changes that may arise due to complying with the standard.

IN CONCLUSION

CCA's approach to IAS 39/AASB 139 compliance succeeded due to methodical planning and collaboration with a trusted partner in SunGard. As an established treasury management solution, AvantGard was able to meet the necessary technical requirements through modular and flexible architecture and ease of design modification. As system experts, the AvantGard team's proven expertise and track record of responsiveness had forged strong ties with CCA that carried through into the IAS project.

Meeting all of the requirements for compliance with IAS39 is an immense and complex undertaking, and few organisations in the Asia Pacific region can count themselves prepared. As time passes, the feasibility of adopting a thorough, system-based approach, marked by appropriate testing and procedural revision, such as the one employed by CCA, gives way to the adoption of a manually intensive process through necessity.

EXECUTION

- CCA obtained/purchased an upgrade to Version 4.0 of AvantGard Quantum and a licence for the hedge accounting module.
- A SunGard consultant also worked with CCA on the implementation of hedge relationship deals.
- Any deals that did not qualify were restructured prior to the transition, regardless of the economic impact.
- CCA vigorously tested differing hedge relationship scenarios over a four month period to identify potentially problematic issues.
- These were reported to SunGard, who in turn provided solutions or suggested workflow changes.
- Solutions were provided via documentation or procedures dictated through Australia or New Zealand