IFRS 9 – IMPLEMENTATION WITH ZEB.CONTROL.ACCOUNTING

On January 1, 2018, banks started to initially apply the IFRS 9 accounting standard, and the implementation phase has also begun for insurance companies. zeb supports banks, insurance companies and other businesses in implementing IFRS 9. With zeb.control accounting, zeb also offers a powerful tool set that covers all relevant subject areas in accordance with IFRS 9 and is already used successfully by numerous banks in Germany and abroad in their daily operations.

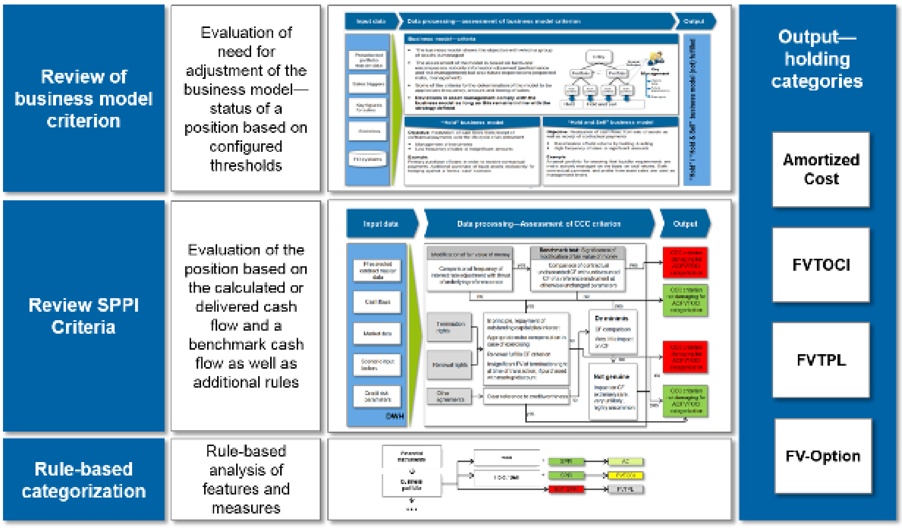

Figure 1: main components zeb.control.accounting - classification

The IFRS 9 accounting standard for financial instruments entails the following core challenges:

The first step involves the classification of financial instruments, which can be divided into derivatives, debt and equity capital and liabilities. The classification of debt equity instruments is determined through the business model, the SPPI criterion and the FV option. SPPI eligibility postulates a basic credit agreement containing only payments of interest and principal as with a normal loan. To confirm SPPI eligibility, the benchmark test assesses various cash flow characteristics and evaluates them algorithmically. zeb.control.accounting-classification significantly reduces both benchmark test and SPPI test effort by applying a layer-based IFRS 9 classification logic. In the rule engine, different criteria for each financial instrument are first checked against a flexibly configurable and predefined ready-to-use SPPI catalog. Financial instruments that do not meet the cash flow criterion are additionally subject to a benchmark test to automatically compare the cash flows for the underlying instrument with a suitable benchmark instrument, using different interest rate scenarios. Both the resulting IFRS category and the justification for this decision are determined and provided for a large number of different products. zeb.control.accounting-classification can be integrated into the core system as a web service and evaluated immediately upon conclusion of a transaction. It can also be retrieved individually at a later date or integrated into a batch operation for a large number of transactions.

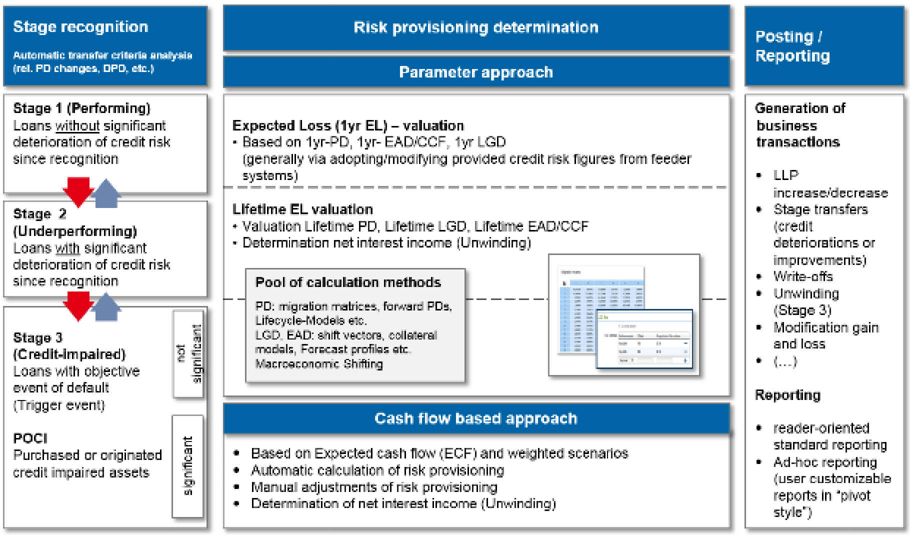

Figure 2: process overview: zeb.control.accounting – impairment

The expected credit loss is determined in zeb.control.accounting-impairment. According to IFRS 9, an expected credit loss must be recognized for assets subject to impairment depending on their stage—this results, for instance, in corresponding postings and disclosures in the notes. The new IFRS 9 impairment valuation model represents a fundamental change from the incurred loss to the expected loss model and thus from reporting date-related to future-oriented measurement. Risk provisioning is now already recognized upon acquisition of the financial asset. Therefore, both the disclosure of the one-year expected loss (EL) for "healthy" transactions and the disclosure of the lifetime expected loss (ELL) for transactions with a significant increase in credit risk are required. In order to classify the transactions, it is necessary to determine the stage on the basis of the 3-stage model, in which transfer criteria for the transition from one stage to the other are applied. Special rules and measurement logics exist for so-called POCI assets and contractual modifications of assets.

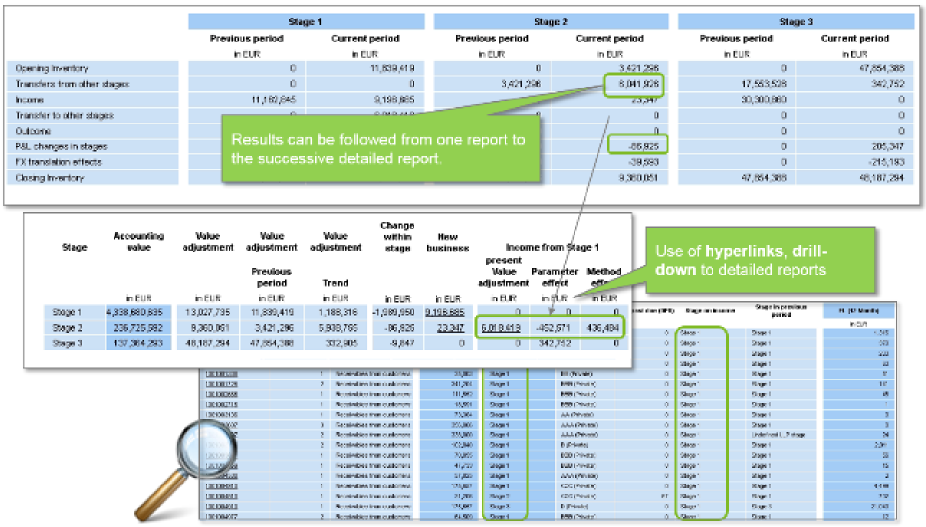

Figure 3: report examples: statement of changes in loss allowance

zeb.control.accounting-impairment supports the entire IFRS 9 process from stage identification to expected loss calculation up to posting. Stage and transfer logic can be flexibly parameterized for each portfolio, using a variety of criteria such as PD comparisons or rating downgrades compared to the time of acquisition, days past due or other information. The full-scale EL/ELL calculation is based on risk parameters. Various functional variants and import formats, such as the alternative use of conditional, marginal and cumulative PD profiles or migration matrices, as well as the realization of collateral through collateral value development models and LGD vectors reduce the effort required for data delivery and can be integrated into existing models. Macroeconomic factors are considered in the calculation through the application of an unlimited number of scenarios with different parameter sets. In addition, the recovery expectation for significant defaulted exposures can be manually estimated, recorded and calculated on the basis of the discounted cash flow for impairment purposes. Input data as well as final and intermediate results are comprehensively presented in standard and individual reports and are reported granularly for the purpose of validity checks and further use in target systems. Requirements such as the detailed disclosure of the causes leading to impairment changes within the loan loss allowances are broken down by individual effects for use in the notes. Transactions relevant to accounting in accordance with IFRS 9 requirements are fully made available for transfer to the general ledger.

The specific IFRS 9 allocation, measurement and accounting logic is applied to both POCI assets and contractual modifications. POCI assets, for example, are assigned to a separate (POCI) stage, and interest income is recorded on the basis of the risk-adjusted effective interest rate. A significance check is also performed for contractual modifications, including modification profit and loss accounting for postings.

Extensive simulation functions complete the offer and demonstrate the effects on key performance indicators, based on simulation scenarios in reporting parallel to the results of the actual portfolio.

Benefit from our comprehensive range of services from a single source: we provide all aspects from an integrative business perspective and process support to the technical implementation. Solving your IFRS 9 issues with support from thought to action—this is what the zeb team can offer.