

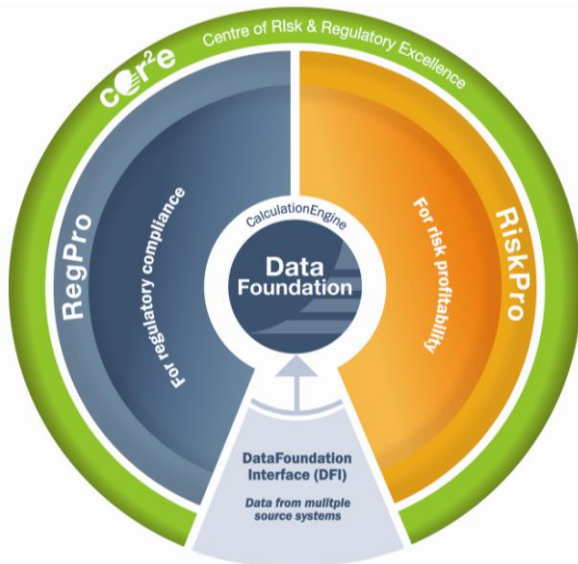
## Solution: IFRS

local knowledge global solutions

This datasheet describes the FRSGlobal IFRS solution

### Introduction

As a result of the credit crunch, the global financial services industry is faced with increased and more complex regulation and a call for better risk management so that the market may be renewed and become stable. Better data management will provide better **internal** management and detailed reporting for the Board as well as information that is critical to the growth and stability of the global market to the **external** Regulators.

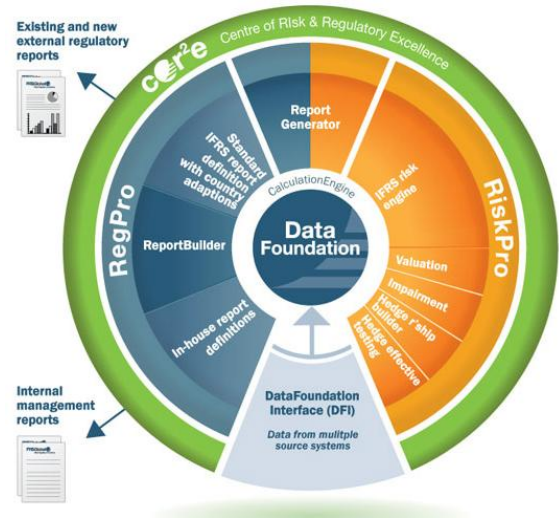


The FRSGlobal solution range

FRSGlobal provides global risk and regulatory compliance solutions on a unified platform through a combination of modules from **RegPro** and **RiskPro** - all fully supported by the FRSGlobal Centre of Risk & Regulatory Excellence (CoR<sup>2</sup>E).

- The **RegPro** modules are designed to meet global regulatory reporting requirements
- The **RiskPro** modules are designed to meet risk management and profitability analysis and operational risk requirements
- FRSGlobal solutions share a unified platform with **DataFoundation** risk and regulatory data repository, and **CalculationEngine** for complex calculations.

### FRSGlobal IFRS solution



RiskPro provides unified risk and profitability analysis. It covers a broad scope and depth of financial analysis, ensuring consistency of results and reducing the cost of analysis.

RiskPro has extensive financial product coverage, from saving accounts, complex loans, insurance instruments to exotic options and structured products.

RiskPro covers value and exposure analysis for all types of methods (fair value, nominal, NPV, observed value, amortised cost, various discounting methods etc), duration, key rate duration, sensitivity measures, various types of gap analysis, price and volatility shift, and VaR (parametric, historical simulation, Monte Carlo).

RiskPro solutions provide the user with the power of dynamic simulation – which allows evaluation of potential decisions in a “*what-if*” environment, and as a consequence enables highly quantified strategic decisions to be made with confidence.

RegPro provides all the regulatory reporting requirements associated with IFS – e.g. FinRep in Europe.

**Risk management solutions can no longer exist in silo form – risk management and regulatory reporting is interlinked**

## What is IFRS / IAS?

International Financial Reporting Standards (IFRS) are the accounting standards issued by the London based International Accounting Standards Board (IASB), an independent standard-setting board.

The purpose of the IASB is to develop a single set of high quality accounting standards that are accepted globally, so that financial statements may be produced, read and understood by both local and international market players.

The IASB has also adopted the International Accounting Standards (IAS) issued by its predecessor, the Board of the International Accounting Standards Committee (IASC).

These continue to be designated International Accounting Standards (IAS) but are being superseded by International Financial Reporting Standards as the standards are reviewed and updated over time.

**Of special interest to banks and insurance companies are the following international standards, which deal with the treatment of financial instruments:**

- IAS 32 (Financial Instruments: Presentation)
- IAS 39 (Financial Instruments: Recognition and Measurement) and its replacement IFRS9
- IFRS 7 (Financial Instruments: Disclosures)

**The FRSGlobal solution provides functionality for IFRS that includes:**

- Valuation: Fair Value and Amortised Cost
- Impairment
- Hedge Relationship Builder
- Prospective and Retrospective Hedge Effectiveness Testing

## Functionality: valuation

IAS 39 requires that financial instruments are assigned to one of the following categories:

- Held-for-trading at fair value
- Held-to-maturity
- Loans and receivables
- Available-for-sale
- Other liabilities

The category determines whether a financial asset or liability arising from a financial instrument is valued at fair value or amortised cost.

### Fair value

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. In reality the fair value of a financial instrument is usually taken to be the observed market value where there is an active market, or if there is not, the value calculated using a recognised valuation model.

In RiskPro different methods for the calculation of fair value are available, for example the discounted cash flow model and Black-Scholes model.

### Amortised cost

Under IAS 39, amortised cost is calculated using the constant effective interest method. The effective interest rate is defined as "the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability".

RiskPro enables the calculation of the effective interest rate and the valuation of financial instruments at amortised cost.

### Hedge fair value

Only fair value changes arising from the hedged risk, for example interest rates, should be accounted for under the hedge accounting rules and at the beginning of the hedge relationship the carrying amount of the hedged item is adjusted to the hedge fair value. RiskPro enables the calculation of the fair value of the hedged item as a result of a change in the hedged risk factor assuming all other risk factors are constant (e.g. calculation of the hedge fair value with constant credit risk spread).

### Impairment

A financial asset is deemed to be impaired if its carrying amount is greater than its estimated recoverable amount. An entity should assess whether there is any objective evidence that a financial asset or group of financial assets is impaired at each balance sheet. RiskPro supports several methods for testing and estimating impairment as required by IAS 39.

## Functionality: hedging

IAS 39 allows for the application of hedge accounting only when specific conditions are met. These conditions include requirements for formal designation and documentation of the hedging relationship, as well as rules on hedge effectiveness. Where hedge accounting is applied the offsetting effects of changes in the fair values of the hedging instrument and the hedged item can be recognised in profit and loss.

The following types of hedge are supported by RiskPro:

- Fair value hedge
- Cash flow hedge
- Hedge of a net investment in a foreign operation

### Hedge relationship builder

With the hedging relationship builder in RiskPro it is possible to define relationships between hedging instruments and the items being hedged. This includes identification of the hedging instrument, the hedged item and the nature of the risk being hedged, for example interest rate risk.

Depending on the hedging relationship, the risk hedged and on the results of the hedge effectiveness tests, the book value of the hedged items and instruments are calculated according to the standards.

### Testing hedge effectiveness

In order to qualify for hedge accounting a hedge must be highly effective from inception and throughout the life of the hedge. RiskPro supports both prospective and retrospective hedge effectiveness testing.

Prospective effectiveness testing is performed at inception of the hedge. The objective of this test is to demonstrate that the expected changes in the fair value or cash flows of the hedged item are almost fully offset (i.e. nearly 100%) by the changes in the fair value or cash flows of the hedging instrument. Retrospective effectiveness testing is performed at each reporting date throughout the life of the hedge. The objective is to show that the hedging relationship has been highly effective by demonstrating that actual results of hedge effectiveness are within a range of 80 to 125%.

RiskPro enables the use of the dollar offset and linear regression methods for both prospective and retrospective hedge effectiveness testing.

## IFRS adoptions

International Financial Reporting Standards have been widely adopted by countries across the world and in some cases this has been achieved by transposing International Financial Reporting Standards into local regulations. For example, in Europe IFRS was made compulsory for listed companies in 2005.

For more information on the FRSGlobal solutions – visit [www.frsglobal.com](http://www.frsglobal.com)

## Features and benefits of FRSGlobal RiskPro IFRS solution

Problem	FRSGlobal solution feature	Benefit to you
Existing accounting systems cannot calculate the valuations of financial instruments using the fair value or amortised cost approaches required under IAS/IFRS	Fair value and amortised cost calculations	FRSGlobal RiskPro enables the valuation of financial instruments under the fair value or amortised cost approaches, in a fully automated process, and delivers the necessary book keeping entries for the general ledger
Hedge effectiveness testing is time-consuming and error prone	Hedge effectiveness testing	FRSGlobal RiskPro enables hedge effectiveness testing both at initiation of the hedge and throughout the life of the hedge.

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### FRSGlobal's offering and guarantee

This document is produced by the FRSGlobal Centre of Risk & Regulatory Excellence (CoR<sup>2</sup>E) team.

FRSGlobal is the only supplier of regulatory risk and compliance reporting, with coverage for 40+ countries. We provide over 1500 financial organisations – including 41 of the top 50 banking institutions – with enterprise risk and regulatory compliance reporting solutions that enable them to increase operational efficiency reduce costs and mitigate risks.

FRSGlobal customers receive software and rich regulatory content that is fully supported by the FRSGlobal Guarantee. This ensures that the regulatory reports under subscription are kept fully up-to-date with regulators' requirements. The Guarantee is facilitated by the FRSGlobal Centre of Risk & Regulatory Excellence (CoR<sup>2</sup>E) which monitors the changes that affect reporting requirements in more than 100 countries

The CoR<sup>2</sup>E team publishes a newsletter describing the latest regulatory developments. To subscribe, please register at [www.frsglobal.com](http://www.frsglobal.com).