

ASP: Purchased or originated credit-impaired financial assets (POCI)

FlexFinance enables the treatment of POCI financial asset standards separate from other financial assets in IFRS 9, from initial recognition and measurement to reporting in separate columns in various financial regulatory reports, even though the formula behind the valuation stays the same.

This poses a technical challenge to many entities as the supporting IT systems may not be able to handle these matters seamlessly, especially for entities for which POCI financial assets are not core business.

Of course, one can always prepare those treatments manually, e.g., in spreadsheets for each reporting period. Besides significant efforts, mistakes can easily occur in a manual procedure (which are difficult to spot). Internal and/or external auditors may not like this practice either (audit trail, security etc.).

FlexFinance can assist entities in processing POCI financial assets in a fully automated manner, audit-trail ensured, quickly and cost-effectively, while only requiring basic data.

No technical interface and no integration to existing system(s) is required. Pre-configured software, no lengthy implantation is required either.

Basic data requirements:

For a purchased POCI financial assets, the following data is expected at initial recognition:

- Transaction price of the financial asset and the face value of the financial asset,
- Value of underlying collateral, if any,
- In case of no collateral, internal expected recovery rate (1-LGD), if available,

During the lifetime of a POCI financial asset:

- any incoming or outgoing payments,
- any change in collateral value,
- any change in the expected recovery rate (1-LGD),
- any business event, e.g., modification, write-off, sale, etc.,
- optionally: FX rate and market curve.

The user only needs to provide data in a template (spreadsheet).

FlexFinance handles all IFRS measurements:

The data template will be uploaded to FlexFinance in the FERNBACH cloud. FlexFinance covers IFRS related measurements for POCI financial assets:

- Generation of expected recovery cash flow,
- Calculation of credit adjusted EIR,
- Measurement of changes in expected credit loss, and
- Measurement of interest income based on net carrying amount (unwinding).

For each POCI asset, accounting journals for each reporting period will be provided.

In addition to accounting results, extensive reporting measures will be provided for each POCI asset, for example:

- Fair value (as compared to the book value);
- ECL change due to different factors: decreases due to derecognition, change in credit risk (net), decrease in allowance account due to write-offs, other adjustments, amounts written off directly to the profit and loss statement; gains or losses on derecognition of debt instruments, etc.

What you will get (results ready!)

All measures are available on the FlexFinance UI and ready to be extracted for any external general ledger and/or reporting system.

Business users can perform ad-hoc analysis on the FlexFinance UI directly.

No intervention from IT is necessary.

For an offer, inquire at [G.Fernbach \[at\] fernbach \[dot\] com](mailto:G.Fernbach[at]fernbach[dot]com)