Core Cash Flow Generation

The FlexFinance "Cash Flow Generation" is a core functionality used in various blueprints such as Bank Management, Financial Accounting etc.

A cash flow plan (payment plan) provides a comprehensive and detailed overview of the economic situation of a financial instrument by describing the sequence of agreed and expected payment events during the **entire lifetime**. It thus provides a correct basis for valuation as called for by regulatory authorities as well as by internal analyses such as earnings management.

Therefore the cash flow plan is to be considered as an underlying feature in different areas such as IFRS, ALM and Liquidity.

The **output of cash flow generation** is used especially for

- Valuation purposes: The estimated cash flow plan forms the underlying for calculating measures e.g. in risk managament as well as for initial and subsequent measurement in financial accounting.
- Accounting transactions: The contractual cash flow plan forms the underlying for the identification of business events that reach their due date.

The component "Cash Flow Generation" provides, at individual deal level (e.g. for an individual loan contract with a specific customer), a cash flow plan with maximum granularity, ensuring all business events at deal level are covered. As such, it is focussed on, but not limited to, interest-bearing instruments such as: loans, commitments, money market deals, deposits, interest rate swaps and bonds.

The generated cash flow plan considers **different, separate views** for

- Contractual agreements and
- Real payments and
- Estimated business events.

Each view supports various analytical purposes.

The **contractual view** is important for the identification of due business events.

The **real payment view** provides an insight into a customer´s payment behaviour and can be used to identify due, but unpaid positions. The contractual view and the real payment view are fed into the performance database which can be used to analyse credit risk.

The **estimated cash flow view** forms the basis in financial accounting. Various GAAPs call for the consideration of the estimated cash flow plan for initial and subsequent measurement. For measurment purposes, the following should be used:

- Cash flows with fixed amounts and fixed due dates combined with
- Cash flows reflecting expectations about customer behaviour regarding a contractual clause that might lead to additional expected cash flows in the future. For example, irregular expected cash flows are provided, thus reflecting expectations of an entity about early repayment behaviour which is an optional right in the contract in question.

The cash flow plan in the solution contains more than 250 different types of cash flows. This differentiation between business events is very useful e. g. for the accurate implementation of regulatory requirements. For example:

- A periodical repayment can be distinguished from an out-of-the-ordinary payment (analysis of early repayment behaviour).
- The payment of a fixed-interest agreement can be distinguished from the payment of the fixing of a variable agreement.

Two options exist for the generation of a cash flow plan in the solution:

- Delivery from a third-party source or
- Import of rules on capital payments (outbursement, repayment), interest agreements, transaction costs.

In the latter case, the solution will apply the imported rules in order to generate future maturities within the cash flow plan.

Furthermore, the solution deals with the following challenges related to the generation of cash flows:

- Prediction of future floating interest payments,
- Consideration of caps and floors,
- Consideration of expected customer behaviour making use of cancellation rights or early repayment rights.

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