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Hot topics treasury seminar

(Hoe) voldoen treasury management systemen aan de IFRS 7, 9, 13 en EMIR vereisten?

Agenda

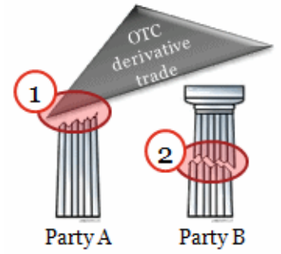
What are the new themes for Treasury Management Systems(TMS):

- Regulations
  - EMIR (European Markets Infrastructure Regulation)
  - Financial Transaction Tax
- IFRS
  - Basis Risk and CSA agreements
  - CVA and DVA adjustments
  - IFRS 9 and IFRS 7 Disclosures

Regulatory

EMIR objectives

EU reform of the OTC derivatives market



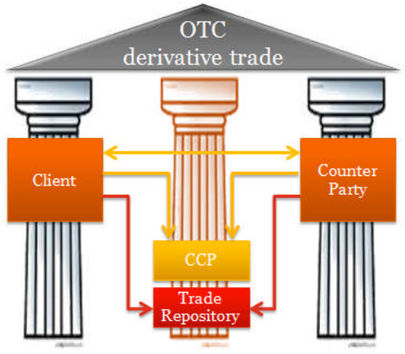
EMIR is designed to promote:

Reduction of counterparty risk

- By a mandatory requirement directed to all actors to clear standardised (or 'eligible') OTC derivatives through CCPs

Reduction of operational risks

- By the use of electronic means



Transparency

- By reporting each derivative contract to trade repositories (TRs)

EMIR - Common date to be reported

59 potential fields; at least 32 per transaction

1	Taxonomy of the reported contract	23	Date of settlement of the underlying	42	Exchange rate 1
2/3	Unique product ID	24	Master agreement type (if applicable)	43	Forward exchange rate
4	Unique ID for any underlying instruments (including baskets or indices)	25	Master agreement version date (if applicable)	44	Exchange rate basis
5/6	Notional currency	26	Date and time of confirmation	**For commodity derivatives**	
7	Deliverable currency	27	(non-)electronically confirmed/unconfirmed	45	Name of the commodity base, e.g. agriculture or metals.
8	Internationally agreed trade ID	28	Subject to the clearing obligation	46	Details of the particular commodity, e.g. livestock or oil
9	Transaction reference number	29	Whether clearing has taken place	47	Delivery point or zone: physical or virtual point where the delivery takes place
10	Unique ID of trading venue (or note that It was concluded OTC)	**If cleared**		48	Interconnection point
11	Does the contract result from compression?	30	Time and date of clearing	49	Load type: product delivery profile: peak baseload, off-peak, block hours or other
12	Price/rate per derivative	31	CCP's unique ID code	50	Delivery start date
13	Price notation	32	Whether contract part of an intra-group transaction	51	Delivery end date and time
14	Notional amount	**For Interest rate derivatives**		52	Contract capacity
15	Price multiplier	33/34	level of the fixed rate leg	53	Quantity unit
16	Quantity	35	Fixed rate day count fraction	54	Price/time interval quantities
17	Amount of any up-front payment	36	Frequency of payments for the fixed rate leg	**For option contracts**	
18	Delivery type	37	Frequency of payments for the floating rate leg	55	Put or call
19	Time and date of the contract	38	Frequency of floating rate leg resets	56	Option styly
20	Date when obligations under the contract come into effect	39/40	Name of floating rate index	57	Strike price of the option
21	Maturity date	**For currency derivatives**		58	Action type (new, modified…)
22	Termination date	41	The cross currency,	59	Details of the action type.

EMIR - Counterparty data to be reported
26 data fields

1	Reporting time stamp	14	Trade with non-EEA counterparty
2	Counterparty ID	15	Directly linked to commercial activity or treasury financing
3	ID of the other counterparty	16	Clearing threshold (above/ below)
4	Name of the counterparty	17	Mark-to-market value of contract
5	Domicile of the counterparty	18	Currency of mark-to-market value
6	Corporate sector of the counterparty	19	Valuation date
7	Financial or non-financial nature of the counterparty	20	Valuation time
8	Broker ID	26	Valuation type
9	Reporting entity ID	22	Collateralisation
10	Clearing member ID	23	Collateral portfolio
11	Beneficiary ID	24	Collateral portfolio code
12	Trading capacity	26	Value of the collateral
13	Counterparty side (buyer/ seller)	26	Currency of the collateral value

Some examples of data that might currently not be captured

- More data fields required
- An assessment should be performed what data is available and in what format they need to be reported to the trade repository
- Interface with the trade repository can improve the efficiency of the reporting
- Some data fields are provided by the trade repository

2/3 Unique product ID

4 Unique ID for any underlying instruments (including baskets or indices)

8 Internationally agreed trade ID

10 Unique ID of trading venue (or note that It was concluded OTC)

19 Time and date of the contract

23 Date of settlement of the underlying

24 Master agreement type (if applicable)

25 Master agreement version date (if applicable)

26 Date and time of confirmation

31 CCP's unique ID code

1 Reporting time stamp

2 Counterparty ID

3 ID of the other counterparty

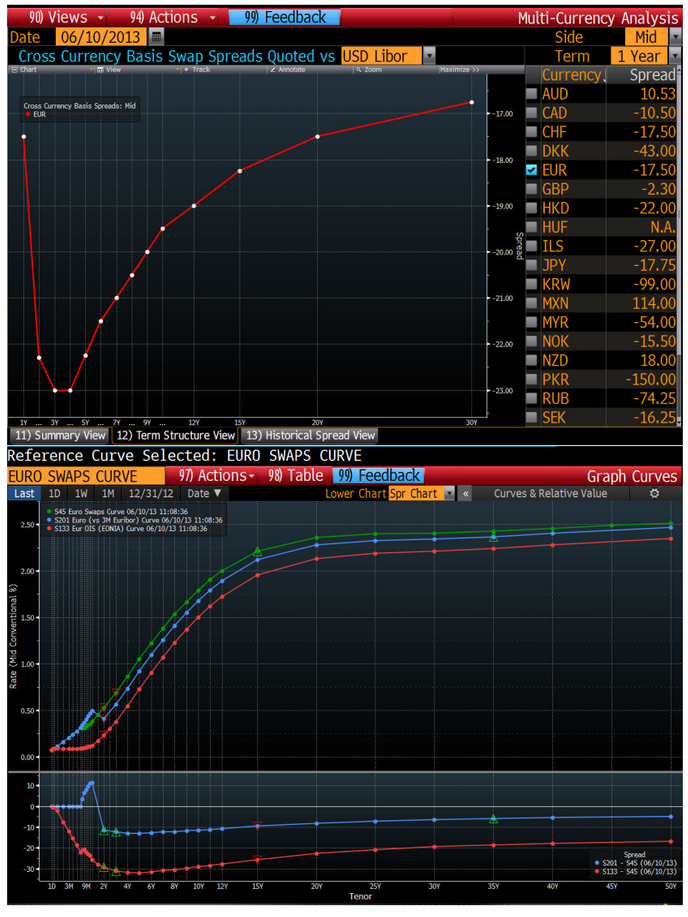
Financial Transaction tax

- The FTT will be charged to financial institutions in relation to:
  - financial transactions
  - Whereby a financial institution
  - With its domiciliation in the FTT zone
  - Is a party of the contract
- Tariff: 0,1% non derivatives/0,01 % derivatives

IFRS

Basis spread and CSA agreements

- During our audits we noted that TMS systems had difficulty in valuing the Cross Currency Interest rate swaps as a result of the Basis Spread.
- Furthermore we noticed that due to the mix of using swaps with CSA agreements and swaps without a CSA agreement TMS systems were not able to value both type of swaps.
- The main issue is that TMS systems should be capable of uploading more than one discount curve



Credit value - and debit value adjustment (CVA/DVA)

Definition of Fair value

The price of an instrument quoted in an active market provides the best estimate of fair value. Appropriate adjustments for credit risk are implicit in this price.

Adjustments for credit risk should consider the impact of master netting agreements and the posting of collateral.

The approach is based on a portfolio rather than on individual Financial instruments

Impact on hedge accounting

Exponential CDS Default Method

For instruments with public counterparties, the simplest method to apply in practice is the "Exponential CDS Default Method". Under this method, credit adjustment (CVA) is calculated as follows:

Credit Valuation Adjustment (CVA) =Probability of default (PD) non credit adjusted value of instrument*(1- recovery rate)*

Recovery rates are available from published sources depending on the credit rating of the company; however, historically, a 40% rate for secured debt and 34% for unsecured debt are common assumptions.

An observable way to determine probability of default is by using credit default swap (CDS) rates. CDS spreads are used to calculate the probability of default with the formula below:

Probability of default (PD) = 1- [2.7182 $^{\{-\text{ CDS spread*maturity in years/(1-recovery rate) }\}}$]

IFRS 9, IFRS 7 Items to consider

IFRS 9

Items

- Removal of the 80-125 bandwith
- Allocation to option premium
- Portfolio hedging

IFRS 7

Disclosures

- Liquidity table
- Credit risk table
- Sensitivity analyses

New item: the legal right to offsett contracts

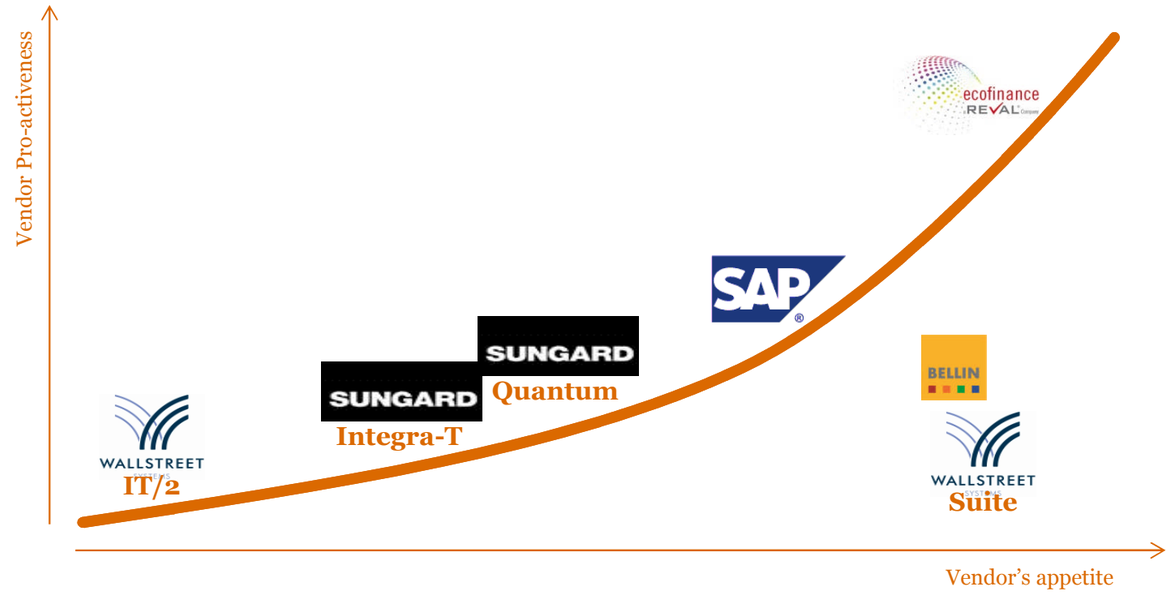
Systemen

System Requirements

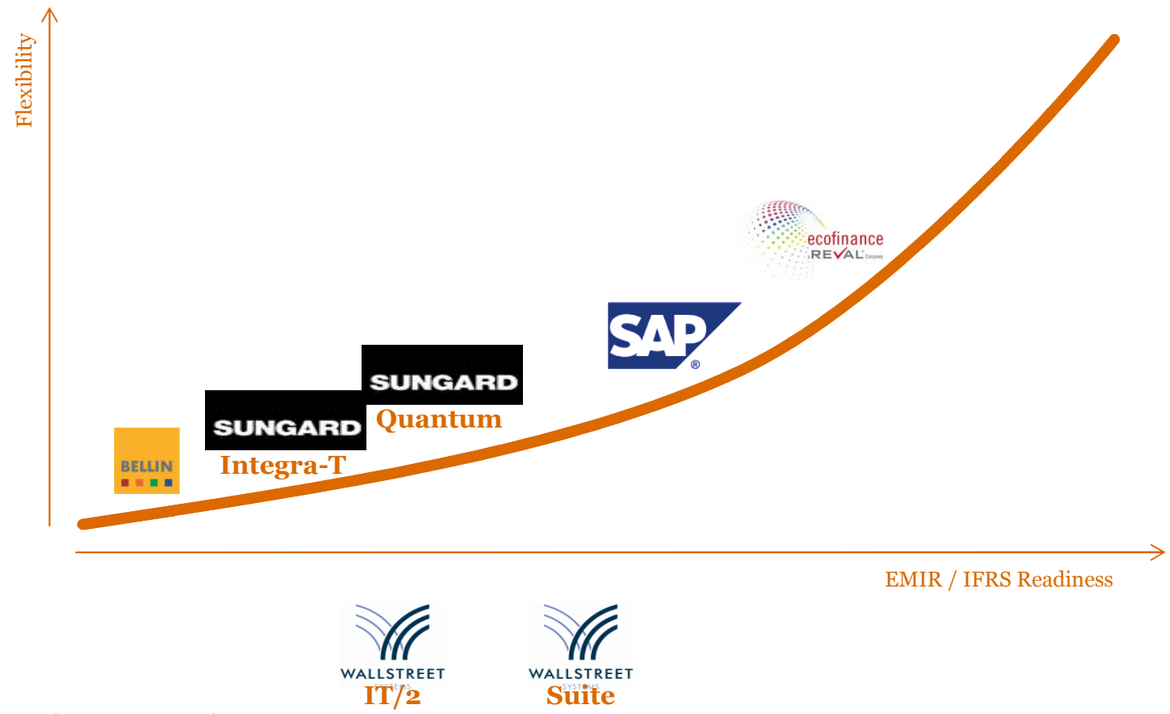
- Data Capture
- Processing
- Reporting

- Product Roadmap

Vendor's Appetite



Vendor's Readiness



WALLSTREET IT/2

WALLSTREET Suite

Treauries cannot rely 100% on their system vendors for EMIR / IFRS Readiness.

Some vendors are more considerable than others.....

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