

Prometeia delivers IFRS 13 compliant Fair Value Module

A new tool to address regulatory compliance and credit risk adjusted pricing

January 2018

Prometeia, the global leader in Risk Management consulting and software solutions, announced that its ERMAS 5 suite is now enriched with the **IFRS 13 compliant Fair Value Module**, a tool designed to calculate fair values in line with the latest requirements set by the IFRS framework.

IFRS 13 Fair Value Measurement applies when IFRS principles require or permit fair value accounting and disclosure. The Standard lays the assumption that fair value is the price that would be settled in a free transaction between market participants. Thus, the Standard defines fair value on the basis of an **'exit price' notion** which results in a market-based, rather than entity-specific, measurement.

"IFRS 13 Fair Value Module is another step made by the accounting regulator towards the integration of Credit, Market and Liquidity Risk into a holistic risk management framework," comments **Massimo Pedroni, Head of International Business at Prometeia**. *"With our new IFRS 13 Module, we are paving the way to the realization of full integration between financial risks."*

To reflect the new IFRS 13 pricing approach, ERMAS ALM analysis has been enhanced with a new functionality, the **Credit Risk Adjusted Sensitivity Analysis**, designed to integrate credit and interest rate risk within the typical Market Value framework.

Building up a consistent methodology which takes into account the expected credit losses allows to improve the **Treasury hedging strategies**, tackling the problem of over-hedging fixed rate positions exposed to high risk of default.

Modelling the credit behaviour in financial pricing has **two fundamental pre-requisites**:

- Defining the survival amount that is expected to be paid off;
- Defining the amount to be recovered in case of default, over the exposure amount at default.

With these latest developments, Prometeia provides an effective answer to these key modelling issues, giving the user the choice of the credit risk parameters to be included in the analysis. Clients attain the following **benefits**:

- Possibility to develop different portfolio configurations and credit scenarios that are shared with all other IFRS modules (for Loss Provisioning for example);
- A complete range of formulas to calculate fair value at portfolio level, taking into consideration trade-specific characteristics such as performing or non-performing status as well as cash flow or discount rate adjustment methodologies.

www.prometeia.com



Prometeia



@PrometeiaGroup



prometeiagroup



prometeia

valeria.patane@prometeia.com
massimo.tagariello@prometeia.com
media@prometeia.com
sales@prometeia.com

- Possibility to account for various risks such as interest, credit, funding and liquidity.
- Fully integrated analysis which combines interest rate “risk free” measures together with credit risk adjusted measures.
- Expected loss assessment for both fixed and floating rate positions in the time bucket in which credit risk exposure are slotted.
- Use of a full range of credit risk parameters such as migration matrices, probability of default and loss given default term structures, together with different credit risk methodologies.
- Assumption setting regarding recovery /no recovery versus different levels of recovery, differentiated by time bands.

Users of the ERMAS platform will benefit greatly from this new analysis module, intended to **maximize flexibility and to ensure a comprehensive parametrization of credit risk drivers, integrated with the IFRS framework.**

ERMAS, the new generation of value-centric risk solutions, is used by over 200 clients in more than 20 countries to support their critical decisions and to comply with local and international regulatory requirements.

To find out more, visit www.prometeia.com.

ABOUT PROMETEIA

With over 40 years of experience in economic research, quantitative analysis and model development, Prometeia is a global provider of consulting services and software solutions focused on Risk, Performance & Wealth Management. With 750+ industry experts, we serve more than 200 financial institutions in 20 countries, through a consolidated network of foreign branches and subsidiaries located in Europe, Africa and the Middle East.