Better portfolio evaluations – quantitative analysis to improve accuracy and reliability of your financial instrument valuations

New accounting standards and more demanding regulatory requirements are increasing the need for finance executives to ensure that their use of quantitative and valuation techniques is appropriate and accurate. EY has created a range of analytical tools and services to help you deal with what is fast becoming one of the most complex and demanding areas of financial reporting.
Our experienced teams, assisted by financial engineers and quantitative analysts, can provide support on a range of challenges related to the valuation, classification and analysis of financial instruments – from straightforward derivatives, through to highly complex hybrid products. We have developed various techniques to independently analyze your financial portfolio, and benchmark your prices and their related pricing processes and controls.

With our proprietary tool - Visual Portfolio – we can verify prices using multiple data vendors and models. We can classify your financial instruments according to IFRS 9, based on your data and data from the market, and assess the impact on your balance sheet of any subsequent reclassification. Our tool will also create the audit documentation you need and highlight the issues that really matter.

Under IFRS 13 and the Capital Requirement Regulation, companies need to pay closer attention to exit prices and valuation adjustments. Best-practice finance departments use techniques such as credit valuation adjustments (CVA), debit valuation adjustments (DVA) and multi-curve valuations, including the consideration of overnight index swaps (OIS), to value their portfolios. We can help you to find and adopt the best valuation solutions for your business, reflecting its size, the complexity of your portfolio and the impact change would have on your existing processes.

Our Visual Portfolio creates robust pricing analytics and risk measures for security portfolios of any size. Using statistical analysis, we identify outliers within fair values. The visualization of the resulting valuation risk clearly highlights the portfolio clusters and single assets that require subsequent analysis and possible follow-up action, such as a revaluation of individual securities. We can also monitor security portfolios over time in terms of performance, findings, cash flows and risk distribution.

Our Visual Portfolio provides tabular and visual analytics on the following topics, which we can use to benchmark your price and risk management processes and assess your risk models:

- Quality assurance regarding portfolio data, such as whether pricing is consistent
- Identification and quantification of systematic valuation risks, based on pricing ranges and statistical evaluation
- Fair value deviations on different levels, such as single asset, asset class or rating clusters
- Fair value hierarchy according to IFRS 13
- Risk factor attribution
- Ratings distribution
- Market liquidity
- Country and GiIPS (Greece, Italy, Ireland, Portugal and Spain) exposure
- Concentration of asset-backed securities (ABS) by vintage
Our Visual Portfolio tool is based on a translation of the principle-based IFRS 9 standard into a set of criteria. These criteria are incorporated into decision trees, enabling us to use market data and data from your company to classify instruments.

The tool can also process loans and asset-backed securities (contractually linked instruments). To perform the look-through tests required by IFRS 9, we use advanced techniques, such as text data mining, and incorporate the results in our Visual Portfolio database.

Our approach to understanding your classification under IFRS 9 has three stages:

- **Stage 1**
  Visual Portfolio IFRS 9 classification runs a set of rules on your portfolio, with three possible outcomes for each security: fair value, not conclusive, no indication of fair value and amortized cost (NioFV).

- **Stage 2**
  The results generated in stage 1 are reviewed and verified, with any gaps closed.

- **Stage 3**
  The results are consolidated into a final conversion report.

Our Visual Portfolio analysis combines a valuation and benchmarking exercise with a classification of instruments according to IFRS 9, enabling us to look at the impact that a move from IAS 39 to IFRS 9 has on a portfolio. It also considers volatility risk, yield and balance stability to optimize the resulting portfolio classification. The results allow comparative scenario analyses concerning former IAS 39 and new IFRS 9 balance values.
Changes arising from market practices, regulatory demands and IFRS 13 require financial institutions to reconsider how they value financial assets and liabilities for regulatory and financial reporting purposes. Depending on the composition of your portfolio, this could have a material impact on business processes and your key financial metrics, including regulatory capital. We can assist with modeling, as well as the calculation and documentation of procedures based on CVA, DVA and OIS. Besides being compliant with regulatory and accounting requirements, our approach puts a high priority on efficiency and valuation reliability.

We can assist you to:

- Adopt a multi-curve approach and OIS discounting
- Update risk models to reflect multi-curve sensitivities, basis risks and OIS discounting valuations
- Manage LIBOR-OIS spread risk and cross-currency basis risk
- Overcome collateral management and optimization challenges
- Consider fair value measurement issues
- Deal with hedge accounting

When complex accounting changes create sophisticated quantitative challenges, it is important that finance executives have confidence in their valuation processes. Our Visual Portfolio tool gives the finance function all the benefits of a customizable solution, while aligning their valuation approach with the kind of methods that represent best practice in related functions, such as risk management, helping to enhance the internal control environment more widely.

Contacts

Dr. Karsten Füser
Global/EMEIA FAAS Markets
karsten.fueser@de.ey.com
+ 49 711 9881 14497

Bernd Georgi
Executive Director
bernd.georgi@de.ey.com
+ 49 6196 996 15957