

ePOCA Newsletter: Flexible Chart of Accounts

Introduction

The flexible chart of accounts is a new ePOCA feature. Behind this simple expression hides a very powerful tool allowing optimal flexibility and efficiency to the securities' accounting.

Motivation

The definition of the chart of accounts for the securities accounting is normally given in relation to the "investment categories". The different accounts (holding, incomes, unrealized gains, etc.) are all defined for an investment category, for example "Stocks Switzerland". In securities' accounting softwares every asset is normally assigned to an attribute "investment category". This attribute allows the booking of transactions automatically by setting the accounts to charge according to the investment category of the asset concerned, avoiding the manual entry of accounts which represents tedious work and can lead to mistakes.

Such a usage of assets' attributes as a hinge to the chart of accounts has the advantage of simplicity but can prove itself to be too rigid in the practice. For example, an unexpected change in the chart of accounts which demands a certain degree of details for the investment categories can result in a long and complex procedure. Let's take a concrete example: the stocks' investments categories are normally classified geographically per countries: "Stocks Switzerland", "Stocks Germany", etc. However, a sudden change in the legislation requires that from now on, Swiss stocks from real estate societies must be categorized with the real estate and not with the regular stocks. Such a change requires a considerable amount of work. First the assets concerned and the portfolios in which they are booked must be tracked down. Then the procedures for operating the changes can be started. The workload is even more important if the imputations on the income and expenditures accounts also must be adjusted.

It is important to know that the change of an investment category does not necessarily originate from a mutation of the chart of accounts or of an adaptation to the legislation, but could also result from a mistake in an asset's definition. Even with all the attention given to the assets' database definition, such a mistake cannot always be avoided.

The central role of the investment category often leads to the most detailed version of the investment categories possible, considerably weighing down on the chart of accounts, without any insurance that the future requirements can be satisfied.

How to efficiently manage these imperatives? An answer is given with ePOCA's flexible chart of accounts.

The Flexible Chart of Accounts

The flexible chart of accounts is not only based on one attribute of the assets – the investment category - but rather on all their attributes. The asset classes are defined with "rules" on these

attributes. For example, the Swiss stocks without real estate societies could be defined with the rule: "Asset type = Stock and Country = Switzerland and Sector \neq Real Estate". A change in the definition of asset classes can be resumed to a change in the rules of definition and is independent of the structure of the "investment categories". The required accounts are then associated with the defined asset classes, similarly to the association with the investment categories in a standard chart of accounts.

For a portfolio or a client, only the required asset classes must be defined, without considering eventual future requirements, since these will be defined according to the attributes of the assets. The chart of accounts, including the association between the accounts and the asset classes, is therefore as compact as it could be, resulting in a fast definition according to the exact requirements of the client and maximal efficiency.

The definition of the asset classes with the rules is only the tip of the iceberg which is the flexible chart of accounts. The hidden part of this construction is the automatic management of the modifications. All modifications are made by the user, without him having to be preoccupied with their consequences since they are automatically handled by ePOCA. The modifications do not imply any waiting time, since they are only saved, without any changes in the accounting/s. These modifications are first executed during the closing of the portfolios concerned.

While preparing the closing of a portfolio ePOCA will automatically search for all modifications which could result in a change in the accounting. The possible modifications are:

- A modification of attribute of one or several assets.
- A modification in the definition of the rules of the asset classes for the portfolio.
- A modification of the chart of accounts and/or of the association between accounts and asset classes.
- An extension of the chart of accounts.

For each position ePOCA analyses these modifications and determines if a mutation in the accounting is necessary. For example, if the holding account of the analyzed position has been changed, regardless of the reason, a transaction of transition will be booked from the old holding account to the new one. This also includes all imputations on the incomes and expenditures, for example an income booked in the past will also be transferred on the new account. This way, the incomes and expenditures will exactly correspond with the new definitions. All account mutations will result in one transition transaction or more, booked at the beginning of the actual closing period. Since mutations can happen at any time, it is possible to book the transition transactions during an interim closing as well as a main closing. Predictably enough, no mutation will be done on already closed periods, especially the previous period.

Management of a multi-client with a flexible chart of accounts

The many advantages of the flexible chart of accounts are even more striking when multiple clients are handled. This way of managing the accounts in the traditional model can lead to an "explosion" of investment categories to satisfy the actual and future needs of the customers. Nowadays it is not possible to simply split stocks between Swiss stocks and foreign stocks. This distribution would not

make any sense for a non-Swiss client. Often, only one chart of accounts is used for all clients, the chart of accounts of the client itself being an aggregation of the "universal" chart of accounts. The downside of this method is the great size of this chart of accounts. The setting of new clients is laborious and the workload for the accountants difficult considering the high number of accounts.

Moreover, the management of a client's requirements is a delicate task since they can be contradictory from one another. Let's take the previously mentioned example above where a Swiss stock belonging to a real estate society should belong to the class "Stocks Switzerland" for some clients, and to the class "Real Estate Switzerland" for some others. How should these different and individual requirements be managed without multiplying the amount of investment categories and without creating exceptions lists which have to be updated constantly?

With the flexible chart of accounts on the contrary, the tendency is toward simplicity. The asset classes can be defined easily for every client, exactly according to his wishes and independently from the others. There are several advantages to this handling procedure:

- It is not a problem if a client requires that certain assets belong to a particular asset class.
- It is not a problem when a client requires new modifications, there will have no consequences on the other clients' accounting.
- The asset classes correspond perfectly to the client's needs, without having to define a special aggregation.
- The chart of accounts corresponds exactly to the clients' chart of accounts. The quantity of accounts is consequently diminished to a minimum, for a maximal transparency and efficiency.
- The implementation of a new client requires only a minimum of efforts.

Let's take a realistic, but extreme example in its constraints. A client wants an accounting of the stocks grouped by activity sectors, when most of other clients wish their stocks to be grouped geographically (when not simply as national / foreign). With the flexible chart of accounts such requests can be executed without problems and without having to reorganize manually the whole accounting!

As it is normally the case with one client, all modifications can be made without any problem. Modifications on the assets can have repercussions on all clients, while modifications on the chart of accounts will only have repercussions on the accounting of the client, without risks of any misbehavior.

Synchronism with the investment reporting

The investment reporting is also based on the asset classes defined in the securities' accounting. The flexible chart of accounts is therefore also useful to the investment reporting since the modifications and particularities can be handled at anytime. The securities' accounting and the investment reporting remain always synchronized, while allowing a unique flexibility. So yet another argument as why the investment reporting should be derivate from the accounting data.