

IFRS 9 SPPI Streamlines the Classification & Measurement of Financial Securities.

IFRS 9 CAN HAVE A MAJOR IMPACT ON THE BALANCE SHEET CLASSIFICATION OF FINANCIAL INSTRUMENTS

The International Accounting Standards Board (IASB) issued IFRS 9 *Financial Instruments* in July 2014, replacing IAS 39. The standard updates the model for balance sheet classification and measurement of financial instruments, impairment of financial securities, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The EU will likely endorse IFRS 9 into EU law in the second half of 2016.

CRITERIA REQUIRED FOR CLASSIFICATION

The classification of a financial instrument under IFRS 9 is based on both the entity's business model and the contractual cash flow characteristics of the financial asset. IFRS 9 requires that the following criteria be met in order for a financial instrument to be classified at amortized cost:

- The entity's business model relates to managing financial assets (e.g., bank trading activity), and, as such, an asset is held with the intention of collecting its contractual cash flows
- An asset's contractual cash flows represent "solely payments of principal and interest" (SPPI)

The Financial Accounting Standards Board (FASB) had earlier decided not to endorse the IFRS 9 model for the classification and measurement of instruments.

CHALLENGES TO IMPLEMENTING THE NEW STANDARD

IFRS 9 is a principles-based standard requiring interpretation by subject matter experts in the daily application of the rules. The challenges firms face as they try to implement the new standard include:

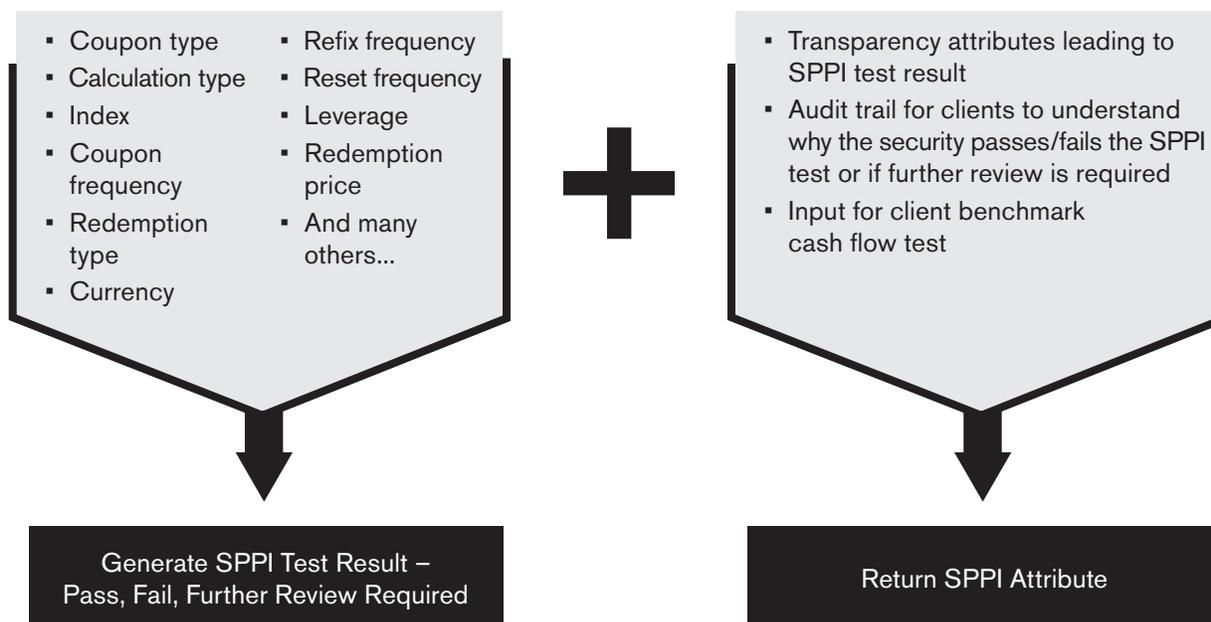
- Designing and building an automated system
- Continually monitoring and updating the test results
- Documenting and maintaining a defensible audit trail

These challenges are a significant operational burden for firms with already strained finance and accounting resources.

KEY BENEFITS

- **Consistent** – Guidelines from major accounting firms are considered in the SPPI classification logic, leading to consistent and defensible results
- **Comprehensive** – Considers more than 70 security field characteristics for any features potentially creating cash flows inconsistent with the "solely payments of principal and interest" (SPPI) criterion
- **Global** – Broad coverage of the securities universe with approximately 1.6 million securities included

Bloomberg IFRS 9 SPPI approach



THE BLOOMBERG SOLUTION ENABLES AN EFFICIENT DAILY SPPI ELIGIBILITY ASSESSMENT

The Bloomberg IFRS 9 SPPI solution provides firms with an automated classification mechanism to determine whether financial securities pass or fail the SPPI test and provides the reasoning behind that conclusion.

Bloomberg will leverage its extensive global securities database to identify SPPI features and return the result for each unique security, covering approximately 300,000 active fixed income instruments, approximately 300,000 asset-backed securities and approximately 1 million agency pools. Guidelines from major accounting firms are considered in the SPPI classification logic, leading to consistent and defensible results.

The solution considers more than 70 security field characteristics to identify features that may result in cash flows that are not strictly payments of principal or interest. It delivers an accurate and consistent SPPI assessment, eliminating the need for subjective interpretation or additional finance and treasury resources.

BLOOMBERG FOR ENTERPRISE

To succeed today, financial institutions must respond to challenges that are not addressed by traditional approaches. They require world-class solutions that integrate people, processes, information and technology for the front office, middle office and operations. Bloomberg partners with these institutions to protect and capitalize on data, manage risk, deliver transparency and control costs. Through enterprise-level expertise and three decades of deep industry experience, Bloomberg creates real value through the use of innovative technology that turns data into a strategic asset and optimizes workflows and operations.

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