Classification in IFRS 9 considers the business model and cash flow characteristics of a financial instrument.

The classification process is to be executed at initial recognition.

A "relassicification check" needs to be applied in addition at any subsequent posting date till the maturity date of the asset is reached.

The solution provides different types of accounting category assignment processes, each taylor-made to individual needs depending on the business of the entity in question.

In general, the user can choose between fully automated processes and a semi-automated process. These processes mainly differ with regard to how the business model is identified or assigned and how the SPPI test will be executed.

The selection of the appropriate taylor-made classification process is driven by the complexity of the portfolio and business of the entity.

FlexFinance provides various ways of assigning the accounting category to financial assets and financial liabilities:

- Manual assignment of the accounting category in the front office and import
- Automatic assignment of the accounting category within the solution taking business model and cash flow characteristics into account. For this option two alternatives are supported depending on the available data provided by the source:
  - If the source can deliver the SPPI flag and the business model for financial assets, specific components help to derive the appropriate accounting category.
  - If the information cannot be delivered, FlexFinance components derive the SPPI flag and the business model by analysing the contractual deal information that was imported. In the front office, information that describes the business model and that can be used to determine if the objective of the financial asset is to collect contractual cash flows or sell financial assets, is captured. To this end, it is assumed, for the solution provided, that the business model itself is captured in the front office and delivered to the solution, or alternatively, criteria are defined that enable the identification of the business model in a separate step during the ETL process.

For the consideration of the cash flow characteristics, it is assumed that, based on the "Deal Type Overview", which is part of a bank´s portfolio analysis during the project, deal information such as floating interest agreements, embedded caps/floors, early repayment rights can be identified to check the SPPI criteria. Of course such an analysis depends on the availability of comprehensive deal information. For this purpose, the contractual deal information needs to include supplementary agreements such as options and specific rights (e.g. caps, floors, cancellation rights, early repayment rights) as these might have an impact on the accounting category assignment.

The most pragmatic way is to perform classification on the basis of board portfolios. For this purpose, financial instruments can be grouped in portfolios in FlexFinance. The applicable IFRS 9 accounting category will be assigned for these portfolios.

Depending on an entity's individual portfolio and the approval process of product designs in the bank, there are several options for building portfolios. Usually a board-approved product design involves existing valuation approaches and impacts on profit and loss. Therefore, a board-approved product design usually provides a strong parameter for deciding on the appropriate IFRS 9 accounting category. In addition, the following parameters are usually used to assign an asset or liability to an IFRS 9 accounting category:

- IAS 39 accounting category,
- Product type,
- Desk/dealer

It should be possible to assign the appropriate IFRS 9 category for attribute combinations of these criteria. In this case, a separate decision for every individual deal is not required. Individual deals are assigned to a portfolio during the import into the IFRS solution. Then the IFRS 9 category that has been configured for the portfolio will be assigned to an individual deal.

Beside the pragmatic approach, the blueprint also covers a sophisticated approach. For this purpose, specific components are provided to derive the business model or SPPI criteria.

In general, there are two ways to assign the accounting category to financial assets and financial liabilities:

a) **Import of the accounting category.** The accounting category is delivered from an external source (e.g. front office) and imported as contractual information into the solution.

b) **Automatic assignment** of the accounting category within the solution, taking specific parameters for assets and liabilities into account.

Targets of classification in FlexFinance are

- Optimisation of the categorisation process without the need to adapt the front systems and/or core banking systems.
- Automation of the classification process as far as possible.