

IRS Compliance – the 871(m) solution

Increased withholding requirements

The U.S. Internal Revenue Service (IRS) regulation under Section 871(m) requires withholding on certain notional principal contracts, derivatives and other equity-linked instruments with payments that reference dividends on U.S. equity securities and indices. Withholding is required when those amounts are paid to a non-U.S. person.

Contracts linked to equity indexes are deemed to be in scope based on whether the index is categorized as “qualified” or “non-qualified”. In addition, the delta of a contract at issuance (the ratio comparing the change in price of an underlying asset to the change in price of a derivative) must be 0.8 or higher.

Determining the scope for 871(m)

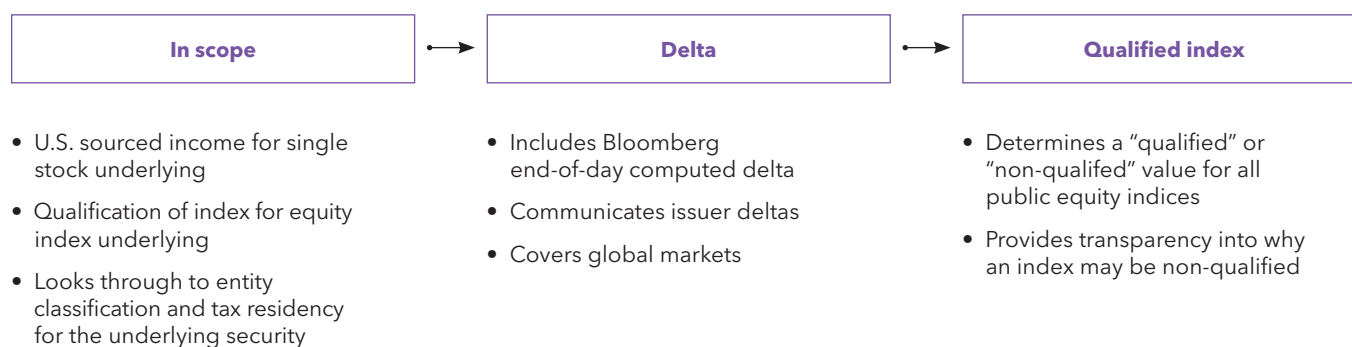
Effective January 1st 2017, the industry will be required to comply with this regulation and identify instruments in scope under the 871(m) rules. Drawing on our unparalleled data resources, Bloomberg offers a data solution for 871(m) that facilitates identification of in scope instruments, provides high quality delta calculations and tests indices for qualification.

Issuer data repository

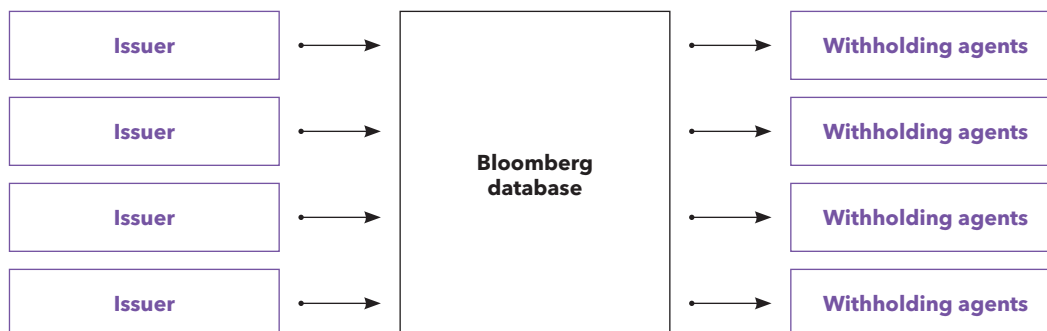
To facilitate communication between issuers and withholding agents, Bloomberg acts as a central repository for 871(m) specific data contributed for structured products and convertibles. To reduce the operational burden for participating firms, the solution leverages Bloomberg’s existing Structured Product Feed (SPF). Through this feed, Bloomberg receives reference data for approximately 10,000 structured products per day from over 100 different issuers and is onboarding issuers to contribute 871(m) data.

Benefits of the Bloomberg solution

- Leverages a broad range of data resources
- Uses entity classification to determine sourcing of U.S. income for underlying instruments
- Coverage includes derivatives, ETFs, equity indices and structured products
- Provides qualified and non-qualified index indicator
- Offers transparency, explaining why an index is non-qualified
- Leverages advanced, trading-quality delta as the end-of-day delta for tax withholding



Aggregates issuer data into a single platform



A comprehensive solution

Bloomberg's solution offers 871(m) specific data points for the universe over two million impacted instruments:

- Potentially-in-scope attribute, looking through to the underlying equities indices
- Quality end-of-day delta
- Qualified or non-qualified index indicator
- Transparency into the reason for non-qualification
- Issuer data for structured notes

Domain expertise for tax & accounting

To ensure the accuracy of 871(m) specific data in this solution, Bloomberg collaborates with a third-party tax and accounting firm. This firm's specialized expertise is critical for maintaining an up-to-date solution.

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.

Learn more

Learn more about how we can help your firm automate its data needs. Visit bloomberg.com/enterprise or reach us at enterprise@bloomberg.net.



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