

What's New in Regulatory Compliance

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Release Highlights

Regulatory Compliance

IFRS9 Accounting » Accounting Treatment for Contracts at Below-Market Rates

IFRS9 requires that all financial instruments (for example, loans) are initially recognised at fair value. Normally the transaction price of a loan represents its fair value. Loans made to related parties are often not on commercial terms and hence the fair value of the loans is calculated and the difference between the fair value and transaction price is accounted for separately under the financial statements.

This functionality supports the measurement and treatment of loans made at below-market rates (BMR) of interest under the requirements of IFRS9. This functionality provides users the ability to:

- Identify and flag contracts as *Below Market Acct* when they are made at below-market rates of interest.
- Recognise the initial difference between fair value and transaction price immediately to P&L on initial recognition for below-market rate contracts.
- Support IFRS9 impairment for below-market rate contracts.
- Support takeover, reclassification and modifications for below-market contracts.

Click [here](#) to understand the technical impact of this enhancement for customisation and upgrades.

Click [here](#) to understand the installation and configuration updates for this enhancement.

The topics related to this feature are given below:

[Treatment of Below-Market Rate Loans](#)

[Accounting](#)



[Below Market Contract Details](#)

Installation and Configuration Notes

Regulatory Compliance

IFRS9 Accounting » Accounting Treatment for Contracts at Below-Market Rates

The following configuration is required to support the below-market treatment for hybrid loan contracts in the Temenos Transact system:

- For hybrid accounting, the *Hybrid Acct Type* field in the `IFRS.ACCT.METHODS` table must be set as Yes, with the Fairvalue and Amortised values defined in the *Acct Head Type* fields.
- For migrated contracts from hybrid accounting to below-market treatment, the bank must set the *Hybrid Acct Type* field to No and the *Below Market Acct* field to Yes in `IFRS.ACCT.METHODS`. When the record in `IFRS.ACCT.METHODS` is authorised, the system raises an override to run the one-time service - `IFRS.BELOW.MARKET.SERVICE`.
- If the bank wishes to have ECL and impairment calculations for those contracts migrating from hybrid to BMR, then the ECL accounting heads (Amortised-Stage1, Amortised-Stage2) and impairment accounting heads (Impair Amortised, Unwind, Impair Amc Adjust) must be defined in the same record in `IFRS.ACCT.METHODS`.

Technical Notes

Regulatory Compliance

IFRS9 Accounting » Accounting Treatment for Contracts at Below-Market Rates

Following are the technical changes in the below-market treatment of loans:

- The below-market accounting treatment is supported only for the AMC (Amortised Cost) business model.
- The *Below Market Acct* field value cannot be changed from Yes to No. That is, the below-market rate (BMR) to the commercial movement of contracts is not controlled by the configuration in `IFRS.ACCT.METHODS`.