Economic Scenarios for International Financial Reporting Standards (IFRS 9)

Meet IFRS 9 impairment calculation requirements and related financial reporting standards with confidence, using economic scenarios produced, vetted, and maintained specifically for IFRS 9 compliance. Moody's Analytics, a trusted source for economic scenarios, produces credible forward-looking scenarios to incorporate into your expected credit loss and impairment measurement processes.

The Challenge: Incorporating Consistent, Forward-looking Scenarios into the Measurement of Expected Lifetime Credit Losses

New provisions require firms to evaluate the impact of forward-looking economic changes on their expected credit losses under a range of unbiased possible economic outcomes. Their process is required to consider both possibilities: that credit loss occurs, or not. Many firms have difficulty in developing credible economic scenarios to measure expected credit losses that reflect an unbiased, probability-weighted outcome.

The Solution: Credible Global Economic Scenarios, Produced, Vetted, and Maintained by a Trusted Source

Moody's Analytics solves this problem by providing multiple off-the-shelf global economic scenarios that meet IFRS 9 requirements. We generate these scenarios based on our deep understanding of the global economy, accounting for interrelationships among all sectors. We produce scenarios for 50+ countries, covering more than 1,800 variables, such as unemployment, personal consumption expenditure, retail sales, debt-service burden, bankruptcy rates, initial claims, sector-specific industrial production, interest rate and bond yield curves, housing and labour market performance metrics, demographic series and many client-specific indexes. We furnish a detailed methodology for validation purposes and provide easy access to our economists, so that you can fully understand the underlying assumptions.
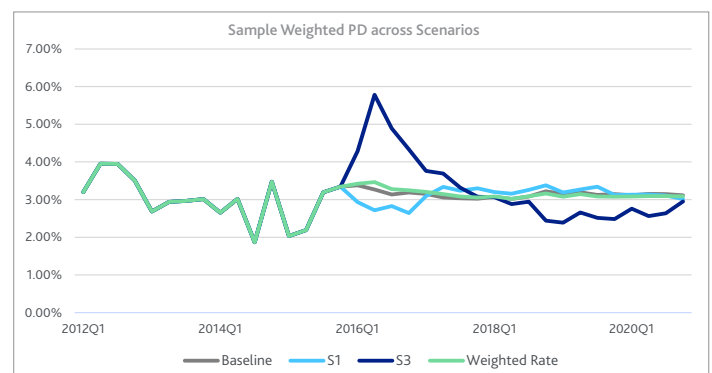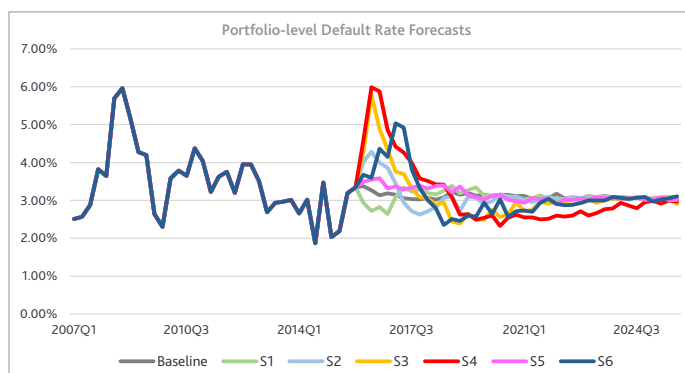
Using probability-based weights on the scenarios helps satisfy IFRS9 requirement to consider forward looking information.
Several scenarios can be used to provide the expected credit risk parameters.
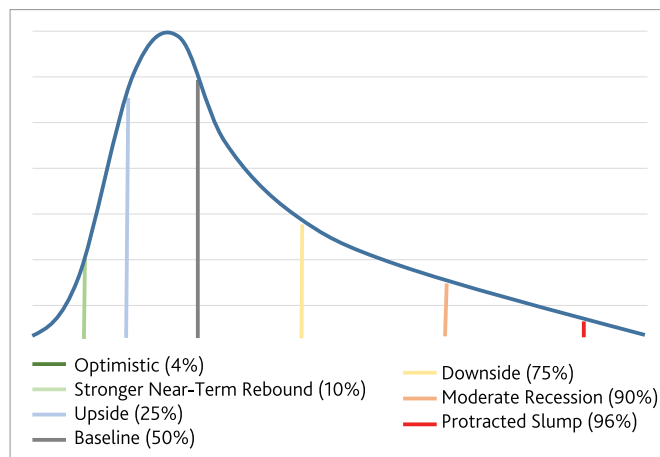
Moody's Analytics Economic Scenarios for IFRS 9

Our Approach

Our scenario-driven approach to forecasting begins with a baseline forecast. Our economists define this forecast as the "most likely outcome" based on current conditions and our view of where the economy is headed. From here, we develop the basic outlines of our alternative scenarios by running multiple simulations to develop a probability distribution of economic outcomes. As a result, our methodology allows for the identification of scenarios that are associated to customer-defined percentiles.

IFRS 9 requires firms to use multiple scenarios to produce probability-weighted lifetime expected credit losses. To help firms comply with this requirement, we produce multiple fully fledged upside and downside economic scenarios that align with the scenarios probability distribution and our deep understanding of the global economy and potential threats. These scenarios also extend through long future horizons to satisfy the IFRS 9 lifetime requirements.

For example, we can provide the following three scenarios to calculate probability-weighted outcomes:

1) Stronger Near-Term Rebound (10% cumulative probability)
2) Baseline Forecast (50% cumulative probability)
3) Moderate Recession (90% cumulative probability)

Legend:
- Optimistic (4%)
- Stronger Near-Term Rebound (10%)
- Upside (25%)
- Baseline (50%)
- Downside (75%)
- Moderate Recession (90%)
- Protracted Slump (96%)

To cover a wider range of points in the loss distributions other scenarios around the baseline forecast can also be produced.

Benefits

» **Compliancy:** Analyze with confidence, using multiple scenarios that are compliant with IFRS 9 requirements.

» **Timeliness:** Account for the most recent data and conditions with monthly updated forecasts and scenarios.

» **Depth:** Leverage a comprehensive set of economic indicators, covering not just headline numbers, but all relevant concepts.

» **Transparency:** Fully understand the underlying assumptions with detailed documentation.

» **Support:** We provide a highly trained relationship management team and full access to our economists.

» **Flexibility:** Clients can choose from multiple delivery options to suit their needs.

Economic Scenarios for IFRS 9 are part of Moody's Analytics Credit Loss and Impairment Analysis Suite

Moody's Analytics Credit Loss and Impairment Analysis Suite improves credit loss estimation analysis and calculations. Its data integrity, analytics, and regulatory reporting solutions provide a modular, flexible, and comprehensive IFRS 9 impairment solution that facilitates a bank's efforts to calculate, manage, and report expected credit losses.

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