Macroeconomic overlay modelling

IFRS 9 Development Standards

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# Introduction

## Purpose and Objectives

Under IFRS 9, banks must transition from a Through-the-Cycle (TTC) view of default risk (as often used in IRB models for regulatory capital) to a Point-in-Time (PIT), forward-looking viewamsshare.com. This means Probability of Default estimates should reflect current macroeconomic conditions and forecasts, rather than long-run averages. In practice, many Internal Ratings-Based (IRB) PD models for corporates produce TTC or downturn-calibrated PDs that are relatively stable over the economic cycle. A macroeconomic add-on is therefore needed to adjust these IRB PDs to PIT PDs, incorporating the impact of economic cycles and outlook.

Define boundaries: portfolios, products, geographies, and exclusions. Identify primary audiences (model developers, validation, Group Finance, internal/external audit, regulators) and briefly state what each should gain from reading.

## Regulatory and Accounting Context

Any PIT PD modelling framework must satisfy IFRS 9’s requirements for forward-looking expected credit loss estimation. Key requirements and how to address them include:

* Unbiased, Probability-Weighted Estimates: IFRS 9 mandates that credit loss estimates (and by extension PDs used for ECL) be unbiased and probability-weighted, considering a range of possible outcomesaon.com. This means we cannot simply use a single “most likely” economic forecast or a worst-case scenario; instead, we must incorporate multiple scenarios and weight them by their likelihood. In practice, banks