



UKEF Corporate Loss Given Default (LGD) Model for IFRS 9 – Requirements - DRAFT

Description

UKEF is looking to procure a LGD model for corporate obligors that will allow it to comply with IFRS 9. A key requirement of the IFRS 9 standard is the incorporation of “forward-looking information” in the calculation of the ECL, so that the ECL is “unbiased and probability-weighted”. This means that UKEF’s estimates of the ECL should utilise reasonable and supportable information that is available (without undue cost or effort) at the reporting date about past events, current conditions and information about future economic conditions. The ECL is comprised of three elements: Exposure at Default (“EAD”), Probability of Default (PD) and LGD.

Therefore, in order to comply with the standard, UKEF require a model that would allow it to estimate the LGD of corporate obligors under alternative economic scenarios (for instance base, upside, downside and severe downside), taking into account the forward-looking information from macroeconomic forecasts.

Estimated total value

Value per year excluding VAT: £50,000.

Value for 3 years (maximum term) excluding VAT: £150,000.

This will be an ongoing need, but the maximum term is three years, so it will be re-procured after this point.



Part A – Detailed Procurement Requirements

Detailed requirements

A1 Detailed requirements	List all requirements for the goods or services as well as any functional or performance specifications.
--------------------------------	--

UKEF is obliged to implement the new International Financial Reporting Standards (IFRS): IFRS 9. This is currently the biggest project in UKEF. The Pricing and Risk Analytics Division (PRAD) within UKEF are working to ensure that UKEF's models, systems and practices will be compliant with the new standard by writing methodology papers and developing models to use in forecasting, etc required by the new standard.

A key requirement of the new IFRS 9 standard is the incorporation of "forward-looking information" in the calculation of the Expected Credit Loss (ECL) which is "unbiased and probability-weighted". This means that UKEF's estimates of the ECL should utilise reasonable and supportable information that is available (without undue cost or effort) at the reporting date about past events, current conditions and information about future developments. This is typically captured by forecasts of economic conditions – multiple macroeconomic scenarios with their own probability weights are needed in the calculation of the ECL.

The ECL is comprised of three elements: Exposure at Default (EAD), Probability of Default (PD) and Loss Given Default (LGD). **This procurement pertains specifically to the LGD.** UKEF has undertaken an extensive review of whether existing LGD models and methods are compliant with the IFRS 9 requirements, with advice and support from PwC. This review concluded that UKEF's current LGD estimates for corporate counterparties do not meet the IFRS 9 standard because it does not incorporate forward looking information in the form of macroeconomic forecasts. **Therefore, the output is to obtain a model that allows UKEF to generate IFRS 9-compliant LGDs for corporate counterparties.**

A2 Deliverables	What outputs or specific deliverables are required, and how do they support the overall objectives?
--------------------	---

The final deliverable should be an economic model that links macroeconomic variables/factors/conditions to Corporate Enterprise Values (EVs) that drive UKEF's LGD estimates. This ensures that the new IFRS 9 compliant LGD estimates that vary with alternative economic scenarios are compatible and consistent with UKEF's existing LGD estimates.

For instance, the model should take UKEF's stressed EV and adjust it down by X amount/% for a given downside macroeconomic scenario.

This could be a brand new/bespoke model developed for UKEF specifically or an already existing model that can be adapted/used for UKEF's purposes.

The resulting macroeconomic scenario-adjusted corporate LGD values will be used in the calculation of the ECL (along with aforementioned PD and EAD) for UKEF's corporate obligors that are captured by the IFRS 9 standard. This will allow UKEF to pass audit for complying with the IFRS 9 standard.



A3 Key dates and milestones

Timetable

When is it needed by?	March 2023
Are there any milestones or interim dates?	N/A

A4 Are there any internal dependencies that the supplier needs to be aware of, for example inputs from the Department for International Trade.

Dependencies

The model will need to be used by colleagues in UKEF's Corporate Risk Approval Division (RAD) to generate the upside and downside LGDs. The intention is that the model will be in place by the start of the 2023-24 financial year, so that the RAD team can use it as they conduct their annual reviews of companies.

The final upside/downside LGDs will then be used as a key input into UKEF's Expected Credit Loss estimates which are required for reporting under IFRS 9 standards for the 2024-25 financial year (reported in Annual Reports and Accounts in 2025).

A5 Are there any intellectual property considerations?

Intellectual property

Inputs of the model will have to be sourced by the supplier during the development of the model, but will be used with UKEF's own inputs once finalised. The outputs will be owned by UKEF.

Supplier requirements

A6 Provide a summary of the industry, technical or other capabilities and experience that the supplier is required to have.

Experience and capability

The supplier should be experienced economic modellers with expertise in both IFRS 9 and assessment of financial/credit risks (specifically for corporate LGDs).

It will be desirable to have a model that is already used by other organisations' IFRS 9 implementation as it will provide us with the assurance that the final model will be compliant with the Standard and will be robust to challenge from Auditors.

A7 List any professional qualifications, industry standards or accreditations that the supplier is required to have. This includes quality standards, e.g. ISO 9001.



Standards

N/A

Digital Accessibility. It is the law that all content on government websites is accessible. DIT aims to publish all content including PDF files as a web page in HTML. If it is expected a programme will require the contracting supplier to create files that will be published to a DIT website (such as research contracts), you will need to ensure the specification of requirements ensure that files align with accessibility standards; there is [internal DIT guidance](#) to support this thinking. You should [contact DDaT](#) as early as possible if you are unsure what requirements you will need to scope in the specification to ensure your programme supports the legal accessibility standards. There is [central guidance and tools for digital accessibility](#) which should be shared with the contracting supplier upon contract implementation, where relevant.

A8
Key personnel and roles

List any key roles in the contract and the restrictions placed on them, for example the Account Manager can only be replaced with 6 months' notice or that you expect certain members of the project team to be available for X number of days per month. You should detail the roles that you expect the supplier to provide.

Model developer (if building a new/bespoke model for UKEF)	Work with UKEF to understand the requirements, scoping of the model, get agreement on the modelling methodology and carry out tests of the final outputs to ensure that they are fit for purpose.
Model developer (if providing UKEF with an existing model)	Work with UKEF to ensure that the model is fit for purpose and satisfies UKEF's requirements. Carry out troubleshooting and provide assistance in using the model. Provide background information/model documentation, etc.

Contract performance and governance

A9
Performance

List the Key Performance Indicators (KPIs) required to ensure the contract performs as expected including what the measure/unit is.

Metric	KPI	What information is required to measure this KPI?	How will the KPI be measured?	Red	Amber	Green
Delivery						
Quality						
Cost						



Continuous improvement						
------------------------	--	--	--	--	--	--

A10 Provide a summary of the governance to be applied to the services

Governance

Meeting/report	Content	Frequency	Format
Report	Full model documentation & User guide	Latest version	Written documents
Meeting	Model implementation/operation questions.	Ad-hoc	Virtual meetings/calls to discuss questions and issues we may encounter during the operation of the model.

Any other requirements

A11 Please list any other considerations or requirements that your Commercial Lead should be aware of, for example security clearance requirements or branding compliance.

May need security clearance to view UKEF's existing corporate LGD model as well as internal papers.