



BANK FOR INTERNATIONAL SETTLEMENTS

Model Validation at the BIS

Central Bank Risk Manager Conference

2016

Mumbai, India

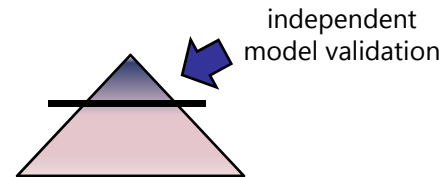
Karin Reichardt

Risk Control

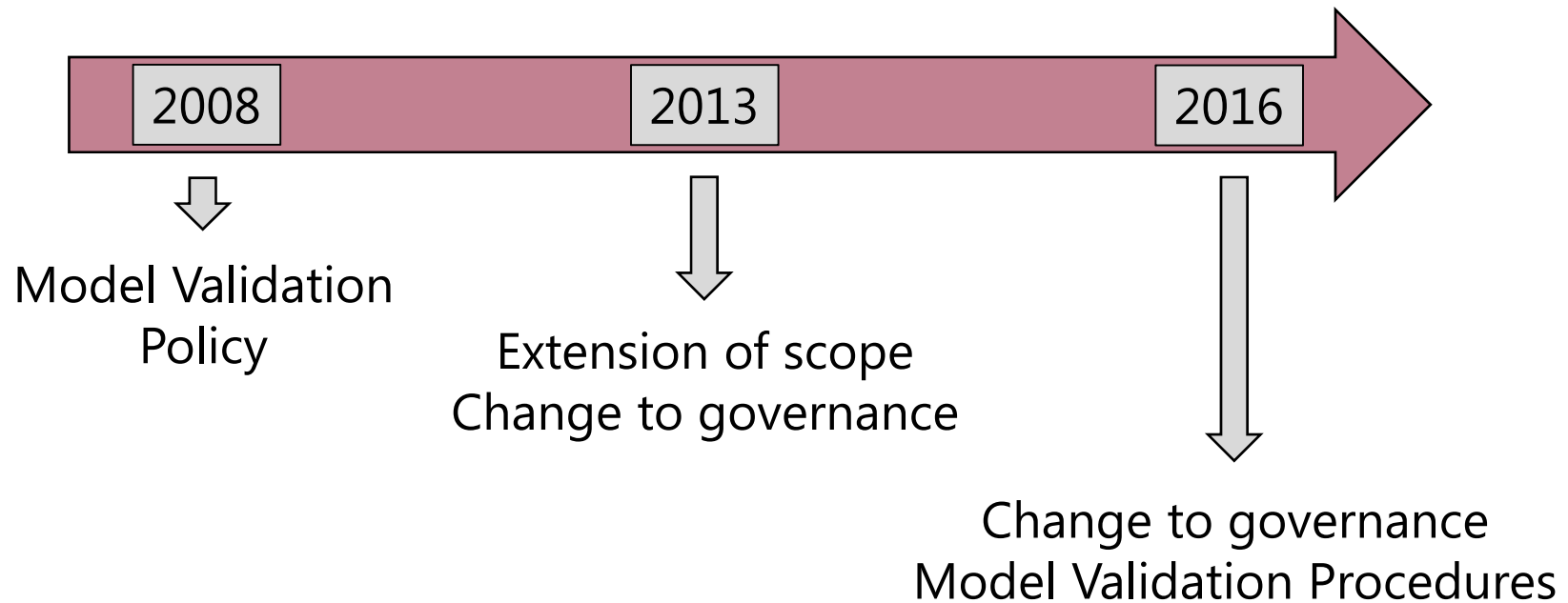


Reasons for doing model validation

- Managing model risk
- Provide assurance
- Good practice → sound practice
- Definition of scope
- Organisational choices and governance
 - Outsource to consultants
 - Spread accross the organisation
 - Dedicated unit
 - Internal Audit
 - Who mandates or coordinates? Who exercises oversight?
Escalation of disagreements?



Model Validation – An evolutionary approach



2008 Model Validation Policy

- Risk and valuation models used for critical internal reporting and public disclosures
- Model inventory
- Well defined roles and responsibilities (model owner, validator)
- Independence of validation/segregation of duties
 - Preference: cross-departmental, otherwise inter-departmental involving different units
 - External validations



2013

Revision to the Model Validation Policy

- Inclusion of front-office models for quoting or reporting to customers
- External model validations mandated by the validator
- Central co-ordination of model validation activities by a committee chaired by the Head of Finance and comprising senior staff from Finance, Risk Control, Banking and Internal Audit (observer)
- Annual report on model validation activities to the Finance Committee (senior management committee that focuses on the banking activities, chaired by the General Manager)



2016

Revision to the Model Validation Policy

- Model Validation Co-ordination Group (MVCG)
- Oversight moved to the Compliance and Operational Risk Committee, chaired by the Deputy General Manager
 - Approves the model inventory
 - Endorses the annual validation plan
 - Monitors validation activities and status of recommendations
 - Ultimate escalation body



2016

Creation of Model Validation Procedures

- Model validation template
- Model fact sheet
- Model criticality assessment \Rightarrow review cycle
- Assessment of the significance of model changes
- The significance of model changes in combination with model criticality determines whether
(i) just logging, (ii) notification, or (iii) a pre-validation of the change is required
- Log of model changes and versions



... Challenges, next steps...

- Strike a good balance between resources spent and value gained
- Continue the implementation of the Procedures and remind model owners of their responsibilities
- Implement an IT solution that allows for cross-departmental collaboration and that supports the work flow related to closing recommendations and that facilitates document management





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