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Model Risk Assessment

2nd MRM Event

26th of April 2017, Paris

Model Risk Management Conference

The 26th of April, Paris

MAIN TOPICS COVERED DURING THE ROUND TABLE

• State of the art of the MRM

- In Europe banks are **more focused on the regulatory models**, so we are at the beginning of the MRM framework implementation.
- "Any forward looking institution knows that what is asked for credit risk and for market risk models will be asked for any other kind of model, like in the US."
- **Non regulatory models** should be integrated in the MRM framework. Banks should identify incentives in order to classify and prioritise them.
- A new and important aspect of the MRM process to be set-up, **is the model attestation**, a mechanism linked to the US process.
- **Families of models** should be kept **linked together with events, findings, documents and actions plans** etc.
- There is an **interaction between model development environment and the need for governance**.
- The **MRM policies are reassessed based on the specificities of the models**.
- The model development environment is changing, **there is a need for more information because there is a wide need for modelling and this influence the requirements for more governance**.

• Assessment of model risk and KRI

- Regarding the risk assessment implementation, banks should ask the following question: **why this model is risky, what is its exposure?**
- The model owners and the validators change the model inventory base periodically, so the usages may change very often.
- **"The KRI produced today are not the same produced 4 months ago"**.
- As of today, there are no precise measure to quantify model risk.
- Some banks had encouragement from supervisors, **to register operational incidents, to build a model risk database**.
- **"Model risk has a little precision, so one important point would be to be able to quantify this uncertainty**. And in particular for the models that are contributing to ICAAP".
- The connection with the operational risk should be considered.

• Standardisation

- Have a **model validation dashboard in the development and implementation lifecycle**.
- The way forward is **to define a homogeneous approach for model validation**.



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