

## Targeted Review of Internal Models – TRIM

### OVERVIEW

#### Objectives



- Reduce variability of Risk Weighted Assets (RWA) stemming from internal models
- Improve consistency among banks' methodologies
- Restore credibility and adequacy in capital requirements

#### Expectations



- Demonstrate regulatory compliance with the model framework, including compliance to EBA Consultation Paper on estimation of PD and LGD
- Produce evidence of adequate model validation processes
- Show policies and procedures for model governance and data systems, including audit trails

#### Impact



- ECB identifies best practices resulting in new minimum standards
- Banks will have to update their internal model approaches based on the review, especially banks that are outliers in peer analyses
- TRIM results may trigger new regulatory requirements

### TIMELINES AND ACTIVITIES

#### Structural preparations and responses

	Preparatory Phase 2016	Targeted Review Phase On-site inspections in 2017 – 2018*	Follow-up After 2018
<b>Objective</b>	<ul style="list-style-type: none"> <li>• Selection of models</li> <li>• Create review handbooks</li> </ul>	<ul style="list-style-type: none"> <li>• On-site in-depth model reviews</li> <li>• Horizontal reviews of selected models</li> </ul>	<ul style="list-style-type: none"> <li>• Remediation and monitoring of findings</li> </ul>
<b>ECB</b>	<ul style="list-style-type: none"> <li>• Prepare and conduct surveys</li> <li>• On-site interviews and collection of documentation</li> <li>• Define model selection criteria</li> <li>• Prepare model review methodology</li> <li>• Finalize selection of models</li> </ul>	<ul style="list-style-type: none"> <li>• Review of IT and data quality</li> <li>• Collect and process data</li> <li>• On-site in-depth methodological review per portfolio</li> <li>• Horizontal review and benchmarking</li> </ul>	<ul style="list-style-type: none"> <li>• Communicate findings of Targeted Review Phase</li> <li>• Monitoring of findings</li> <li>• Identify new guidance</li> </ul>
<b>Banks</b>	<ul style="list-style-type: none"> <li>• General preparation for TRIM based on ECB documents e.g. Regulatory Technical Standards</li> <li>• Perform quick fixes and create model development planning</li> <li>• Set up response team</li> </ul>	<ul style="list-style-type: none"> <li>• High availability of internal stakeholders expected</li> <li>• Supply all model documents</li> <li>• Provide all relevant policies</li> <li>• Demonstrate model use</li> <li>• Delivery of high data quality</li> <li>• Q&amp;A sessions</li> </ul>	<ul style="list-style-type: none"> <li>• Remediate findings possibly covering:                             <ul style="list-style-type: none"> <li>• Model methodology</li> <li>• Model governance &amp; organisation</li> <li>• Processes &amp; use test</li> <li>• Data and IT systems</li> </ul> </li> </ul>

### TRIM-ECB APPROACH

#### The ECB multi-step approach to reach TRIM objectives:

Identification of models for on-site inspections

Development of a TRIM methodology

In-depth on-site inspection by JST (6-9 people)

Identification of triggers for follow-up actions

### SCOPE

#### Five ECB competence centres, each staffed by members of ECB, NCA and external resources

- Centre for general topics, independent of risk type
- Model-Mapping centre to prioritize models under review
- Three competence centres for specific risks aiming to define TRIM's risk-specific methodology

Competence centres	2016	2017	2018
<b>General Topics</b>	Institution-specific review: Governance Framework	Institution-specific review: IT and data quality	Institution-specific review: IT and data quality
<b>Model Map &amp; prioritization</b>	Model Map & prioritization (incl. benchmarking)	Model Map & prioritization (incl. benchmarking)	Model Map & prioritization (incl. benchmarking)
<b>Credit Risk</b>	Methodological harmonization and definition of assessment criteria	Ongoing methodological support for On-site teams	
<b>Market Risk</b>			
<b>Counterparty Credit Risk</b>			
<b>Outlook</b>	Preparation & pilots: <ul style="list-style-type: none"> <li>• Questionnaire on Market- and Counterparty Credit Risk</li> <li>• Questionnaire on general topics, Model Map &amp; prioritization</li> </ul>	Model-specific review: <ul style="list-style-type: none"> <li>• On-site inspections of high-default portfolios</li> <li>• Market Risk TBC</li> </ul>	Model-specific review: <ul style="list-style-type: none"> <li>• On-site inspections of low-default portfolios</li> <li>• Market Risk TBC</li> </ul>

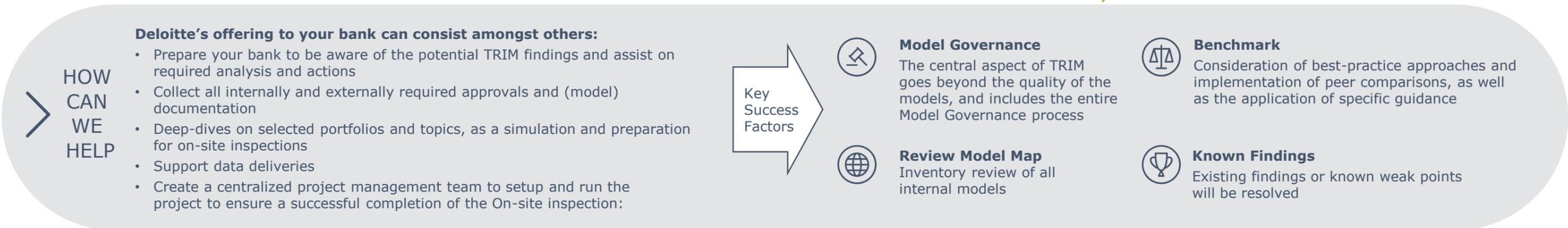
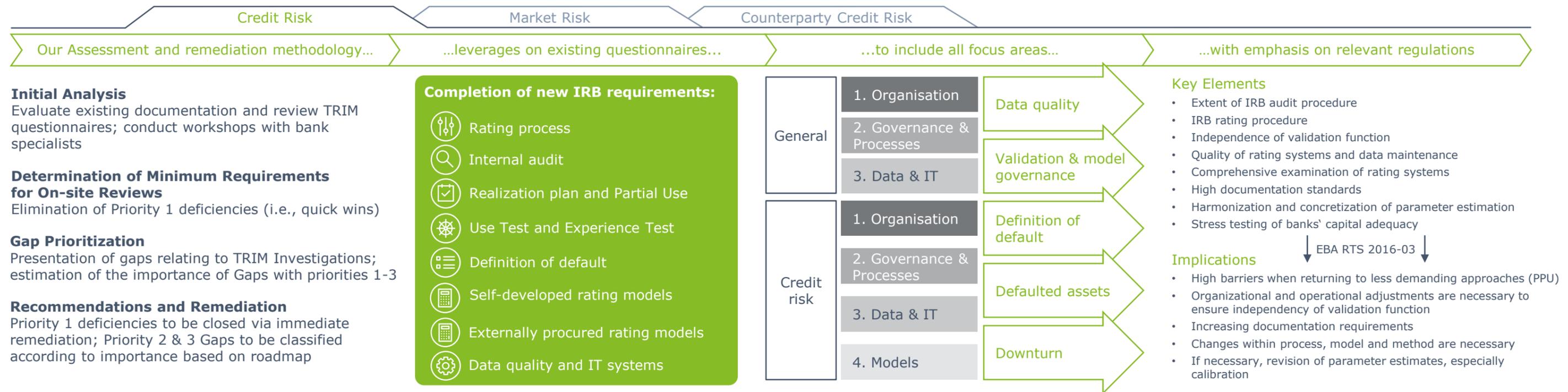
**TRIM results** will be used by the regulator to request adjustments and improvements to current methodologies, governance structures and data quality, and may also trigger new regulatory developments in the future.

Depending on the outcome, the use of internal models for Pillar 1 purposes might be restricted to fewer asset classes.



## Targeted Review of Internal Models – TRIM

### DELOITTE METHODOLOGIES



### QUALIFICATIONS

- More than 250 professionals in internal models**  
Broad-based experience on quantitative topics relating to internal models regarding all relevant risk types
- Advisory focus within Risk Methodologies**  
Technical conception & validation of PD, LGD and CCF models as well as market and counterparty credit risk models
- Global Quant Team**  
Global resource and knowledge network: topic clarifications and refinements, training, benchmarking, exchange of technical questions and leading practices

- Audit areas within Risk Methodologies**  
Support in revisions on (IRB-) rating procedures; Quality assurance regarding the execution of supervisory determinations; Supporting major clients with annual financial statements regarding special topics
- Eminence and Publications**  
Lectures, publications, ad-hoc analyses, Deloitte Quant Blog
- BUCF and ECRS**  
Collaboration on an international level through the Banking Union Centre in Frankfurt (BUCF) and the EMEA Centre for Regulatory Strategy (ECRS)

### CONTACTS



**Dimitrios Goranitis**  
Partner, Banking Risk & Regulatory Advisory  
[digoranitis@deloittece.com](mailto:digoranitis@deloittece.com)  
+40 751 250 684



**Laura Toni**  
Senior Manager, Banking Risk & Regulatory Advisory  
[ltoni@deloittece.com](mailto:ltoni@deloittece.com)  
+40 730 585 901