



## Session 20: So You Have a Validation Program...Now What?

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# So you have a model validation program ... now what?

ERM Symposium, Session #20

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# So you have a model validation program ...

Common industry challenges likely encountered

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- ▶ While providing a significant amount of value to organizations, companies establishing model validation programs are immediately met with several challenges

## Operational burden

- ▶ Arduous workload, in particular for Fed-regulated companies
- ▶ Heavy demands on both model risk management and model owner resources

## Validation procedures

- ▶ Definition of a model can result in massive inventories requiring validation
- ▶ Documentation that “anyone” could follow
- ▶ Subjectivity in setting model risk rankings
- ▶ Tailoring validation procedures

## Resourcing

- ▶ Placement of validation resources
- ▶ Ability to have dedicated resources for validation
- ▶ Ability to preserve independence from first line
- ▶ Availability of proper subject-matter resources

## Review inefficiencies

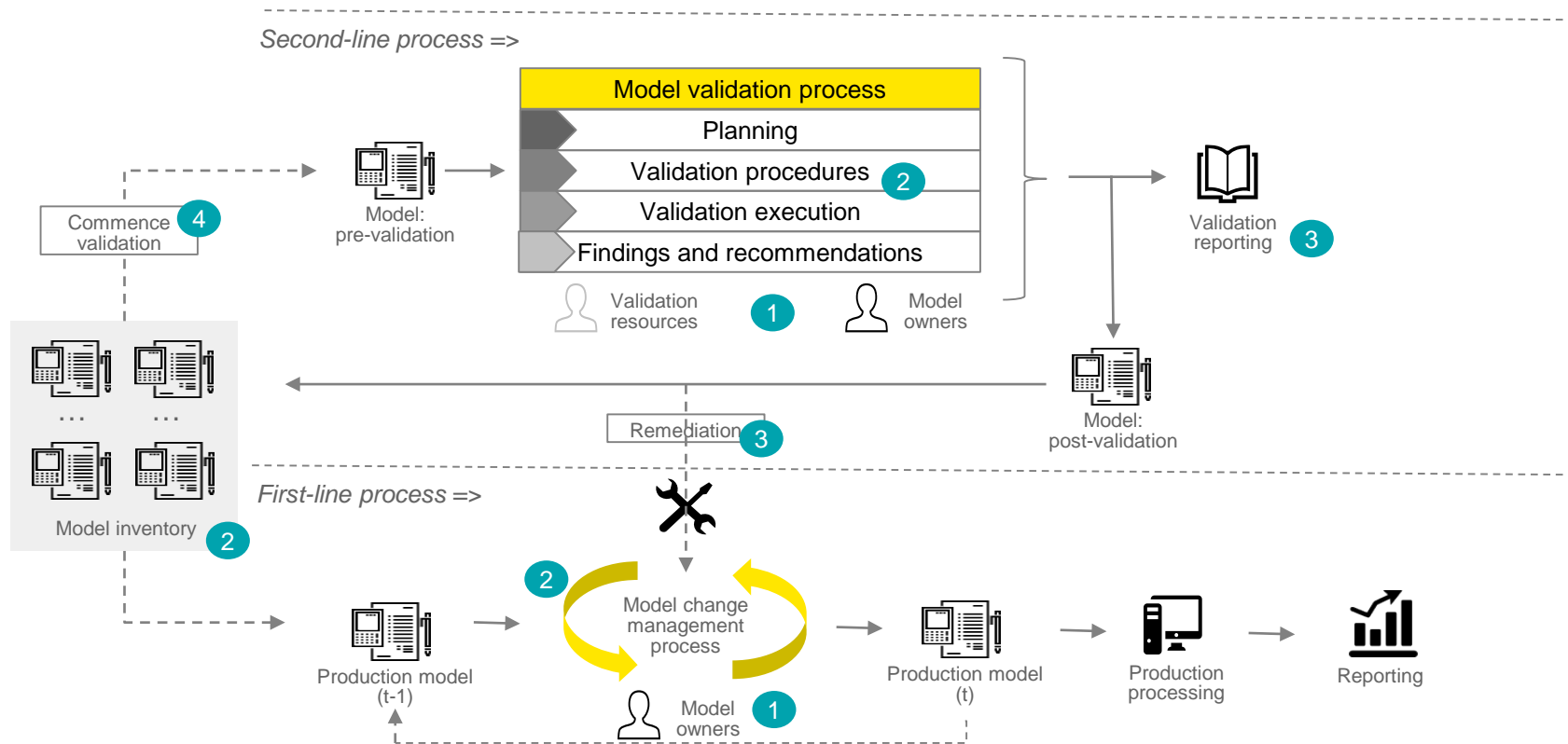
- ▶ Potential overlap of efforts with first line activities
- ▶ Independent reviewers need time to get grounded in model to provide effective challenge



# Model validation panel discussion

## Hypothetical process flow

- ▶ To frame the panel discussion, we present a hypothetical process flow for first and second-line model risk management activities.
- ▶ Key elements of the validation process are identified as our four discussion topics.



# Model validation panel discussion

## Staffing model

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- ▶ How have staffing models evolved over time?
- ▶ Where should the validation function be placed?
- ▶ How is independence upheld?
- ▶ Does ERM have proper skill sets to validate all models?

# Model validation panel discussion

## Reducing operational burden

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- ▶ How are first-line activities recognized in your current process?
- ▶ How are new or redeveloped model procedures tailored?
- ▶ What influences continual evolution of program versus those that start the program?
- ▶ Diversity of models in inventory: does the definition of a model readily apply?

# Model validation panel discussion

## Reporting/outcomes

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- ▶ Metrics to study/quantify model risk
  - ▶ What historical information about the model risk program is maintained?
  - ▶ How are validation findings risk ranked?
  - ▶ What types of reports are produced as a result of the validation effort?
  
- ▶ Reflections on value proposition
  - ▶ Have risks been effectively identified?
  - ▶ Has documentation been improved?
  - ▶ Has organizational awareness of model risk been heightened?



# Model validation panel discussion

## Subsequent validations

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- ▶ How are procedures tailored for models that have already undergone validation?
- ▶ How do you decide when to dig deeper and step back?
- ▶ What frequency are subsequent validations subject to once initially validated? Are changes applied?
- ▶ What are the distinctions between full validation and on-going monitoring?

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