Overlay Framework & Process

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Session 1.A.

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BMO Financial Group

We're here to help.™

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Framework and Process Overview

- Guiding principles related to the development and application of overlays
  - Explicitly linked to model/process limitations, strategy or portfolio mix changes, etc.
  - Supported with sound business rationale and quantification
  - Appropriately conservative and consistent with assumed scenario conditions
  - Developed through a repeatable and transparent process
  - Governed by a materiality framework
  - Material overlays discussed through challenge process

- An overlay framework can be used to address the principles above
  - Provides logical groupings and a basis for discussion (transparency)
  - Supplemented by detailed documentation, providing guidance within categories
  - Outlines process, controls and roles/responsibilities
  - Ensures appropriate evaluation of technical and business-related considerations
  - Supported by aggregation tools/inventories (repeatability)

- Potential challenges
  - Level of overlay application – model level vs. portfolio level
  - Articulating the linkage between technical and business considerations
  - Framing historical metrics in the context of portfolio composition/dynamics
  - Model lifecycle considerations

Framework Components
Overlay Categories

> 1st and 2nd Line Activities

> Model Validation and Audit Findings

> Benchmarking and Industry Analysis

> Monitoring and Process Considerations