



Risk Based Approach to CCAR

FRB Stress Testing Symposium

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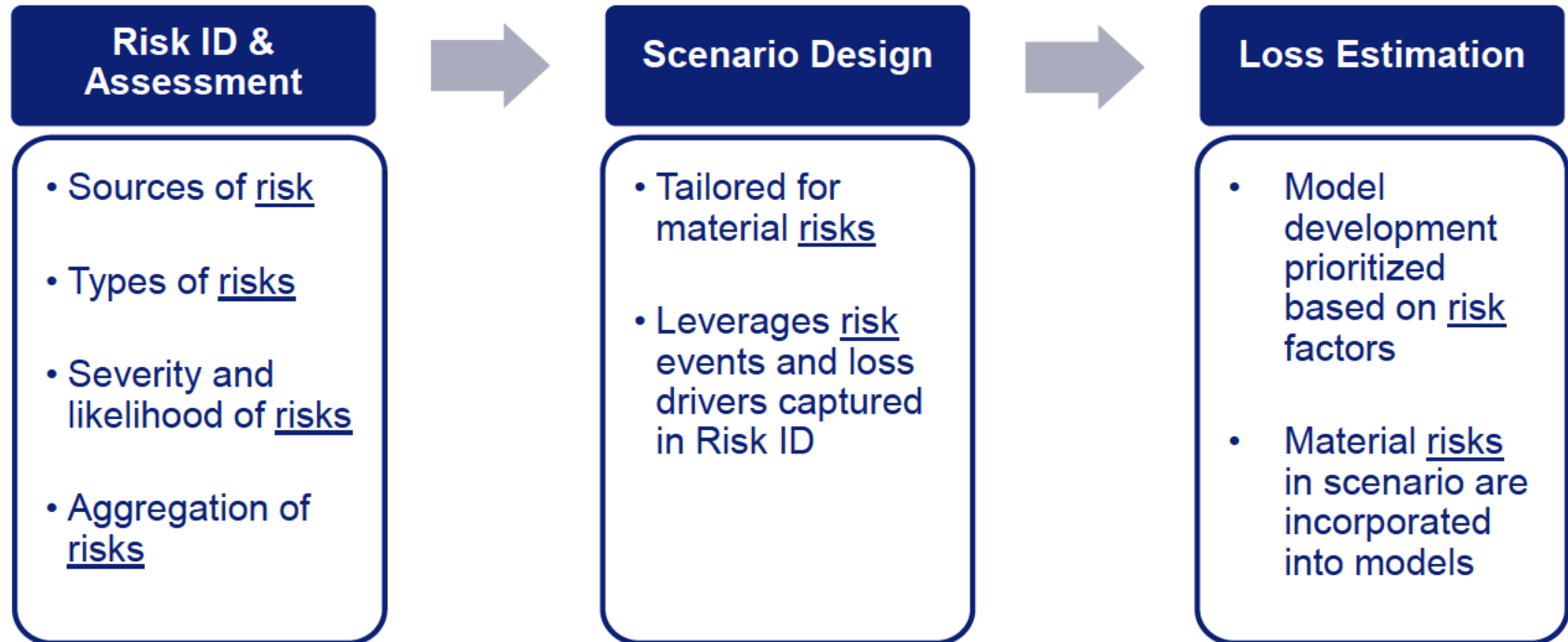




“I’ve got 99 problems and 86 of them are completely made up scenarios in my head that I’m stressed about for absolutely no logical reason.”

Key Elements of Stress Test

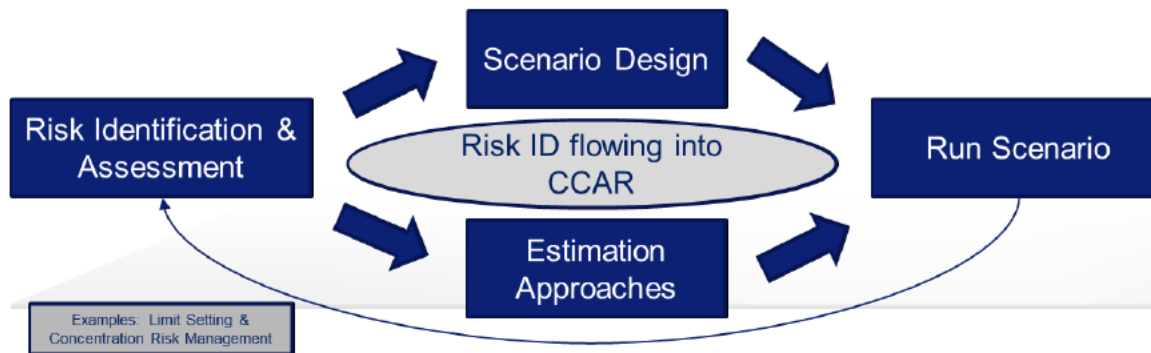
Risk is the starting point for each process



Risk Based Approach to Risk ID & Assessment

Risk Identification & Assessment

- Prioritizes risks based on the level of severity to the enterprise and likelihood of risks
- Provide transparency of risk information for Scenario Design Team and Modelers
- Supports a risk based approach by allowing the company to focus on identified Material Risks during the CCAR process



“The board should hold senior management accountable for providing sufficient information on the firm’s material risks and exposures to inform board decisions on capital adequacy and actions, including capital distributions.”

*Excerpt from Federal Reserve SR 15-18
– “Federal Reserve Supervisory
Assessment of Capital Planning and
Positions for LISCC firms and Large and
Complex Firms”*

Risk Based Approach to Scenario Design

Scenario Design

- Idiosyncratic Risks are identified and assessed through the Risk ID & Assessment process – this flows into Scenario Design
- Risk Drivers are an output of Risk ID & Assessment process
- Scenario Design team focuses on Material Risks for consideration of inclusion in the BHC scenario – resources and time are focused on Material Risks
- All Material Risks are mapped into BHC Scenario or supported for non-inclusion

“The firm’s scenario should be carefully tailored to the idiosyncratic risks of the firm, as defined through the firm’s internal material risk identification process, and should incorporate circumstances that are particularly stressful to the firm, given the firm’s idiosyncratic risks and key vulnerabilities.”

*Excerpt from Federal Reserve SR 15-18 –
“Federal Reserve Supervisory Assessment
of Capital Planning and Positions for LISCC
firms and Large and Complex Firms”*

Risk Based Approach to Loss Estimation

Model Development

- Models are prioritized for (re)development based on:
 - Regulatory Feedback
 - Model Validation
 - Model Monitoring
 - Management Feedback
 - Model Overlays
 - General Modeling Methodology or Process Improvements
 - Other Factors
- Scorecard used to qualitatively rank models based on criteria from above
 - Supports development of model development project plan

“A firm should develop sound methods to estimate credit losses under stress that take into account the type and size of portfolios, risk characteristics, and data availability.”

*Excerpt from Federal Reserve SR 15-18
– “Federal Reserve Supervisory
Assessment of Capital Planning and
Positions for LISC firms and Large
and Complex Firms”*

Risk Based Approach to Loss Estimation

Model Development, cont.

- When a model requires (re)development, preparation of model development focuses on:
 - Working Group Set Up
 - Project Planning
 - External Resources
- Model Risk Driver Discussions
 - Potential Risk Drivers are identified for each segmented portfolio based on literature review and business insights
 - Discussions are conducted with Business Line Leaders and Risk Managers, which may recommend removing or adding variables based on business intuition
 - Risk Drivers from Material Risks in the CCAR Risk ID process



Key Take-a-Ways

- Each core element of the stress test is based on **risk** – don't lose sight of that throughout the process.
- Continue to enhance the flow of **Risk ID results into scenario design and estimation processes** – this will support a risk based approach.
- Provide modelers with **full access** to Risk ID process and results.
- Model Development – Have right stakeholders involved and **prioritize limited resources**.
- Use a **risk based approach** to have logical reasons for your scenarios (avoid 86 illogical ones...and angry monkey gods) – that will give you **less stress!**