A Supervisory Perspective on Applying Model Risk Management (MRM) in CCAR

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Expectations for MRM in CCAR

• BHCs are expected to have satisfactory validation for CCAR models
  – CAP Principle 6 (underlining added): “The BHC has robust internal controls governing capital adequacy process components, including policies and procedures; change control; model validation and independent review; comprehensive documentation; and review by internal audit.”
  – ROPE (p. 7): “BHCs should conduct independent review and validation of all models used in internal capital planning, consistent with existing supervisory guidance on model risk management (SR 11-7)”

• SR 11-7 lays out expectations not just for validation, but for all aspects of MRM

• MRM for stress testing & assessing capital adequacy under stress conditions presents specific challenges
A Few Points of Emphasis on MRM

• The “first line of defense” in MRM is very important (development, implementation & use)
  – MRM not just the responsibility of validation staff

• Still see more opportunity for sensitivity analysis and challenge of model assumptions, including during the development stage

• Recognize that, in some cases, not all MRM activities can be conducted before a model is used in CCAR
  – If so, need transparency, exception process, remediation plans, and compensating controls
  – Should at least attempt some type of conceptual soundness review
  – Use greater caution for models with higher uncertainty

• Model materiality a fundamentally important consideration in MRM
  – More material models need more attention

• MRM for CCAR should be consistent with overall MRM framework expected under SR 11-7
A Few Common Questions

• What are expectations for use of overlays/overrides?
  ✓ Should they be subject to validation/effective challenge?

• Do models for normal business needs have to be re-evaluated for their use in CCAR?

• Do supervisors require a model risk buffer?