



Finalyse Credit Risk Model Validation Suite

A fresh take on risk and valuation

Model Validation:
are you sure
your internal risk
parameter estimates
are adequate, robust
and reliable?

CREDIT RISK MODEL

INTERNAL MODELS

CRR

MODEL VALIDATION

MODEL GOVERNANCE

MODEL PERFORMANCE

VALIDATION REPORTING

ECB

IRB institutions are obliged to validate their internal credit risk models with respect to their overall adequacy, robustness, and reliability throughout the model life cycle and report the validation results to ECB. However, each institution employs different validation metrics particularly in the quantitative validation of internally estimated risk parameters reducing the comparability of internal validation reports across different institutions. The ECB has issued a set of instructions requiring credit institutions to report a set of validation metrics for each credit risk parameter to reduce this variation.

Finalyse offers a toolkit, which helps banks to build their validation sample for each credit risk parameter (PD, LGD, LGD in-default, EL BE, CCF) and perform all necessary qualitative and statistical tests as defined in these ECB instructions. Finally, the toolkit also generates automatic validation reports in the format, structure and labelling consistent with ECB templates. Furthermore, the toolkit is a set of scripts prepared in different programming languages (SAS, R or Python) and packaged in a way that can be easily incorporated into any IT infrastructure.



For more information, visit www.finalyse.com/risk-advisory-services

Benefits

- Cleaned model validation samples that are aligned with ECB requirements which also include built-in dictionaries
- Production of supplementary validation reports automatically and in line with the ECB instructions for validation
- Simplification of the validation process by enhancing the focus on additional validation tasks
- Streamlined periodical assessment of the IRB models
- Addresses both regulatory requirements and internal needs in validation process
- Common interpretation and computation of a wide range of quantitative and qualitative validation metrics
- Facilitation of the communication during the model reviews by the regulator

Motivation

The toolkit is an initiative of our experienced professionals in model validation, programming and product engineering, and it is inspired by the need of credit institutions for an automation of the ECB reporting requirements in order to facilitate their internal validation process. It provides a user-friendly way to automatically generate high quality validation reports whilst still having an opportunity to add additional test metrics in line with an institution's internal validation standards. Finally, the toolkit can be expanded and adjusted easily to create automatic validation reports in line with an institutions' internal validation standards, as well.

AMSTERDAM

BRUSSELS

BUDAPEST

DUBLIN

LUXEMBOURG

WARSAW