



**Agenda – on-site pre-application meeting**  
**INSTITUTION NAME**  
**Address (including city)**  
**DATE, start time / finish time**

The ECB would like to discuss with **INSTITUTION NAME** the pre-application process and the main components of the **initial model approval/material model change** that the institution is planning to request.

<b>Day, date</b>	
<b>Pre-application process on initial model approval / material model change request</b>	<p><b>I. PART 1</b> (led by the ECB) Overview of the pre-application process</p> <p><b>II. PART 2</b> (led by <b>INSTITUTION NAME</b>)<sup>1</sup></p> <ol style="list-style-type: none"><li>Portfolio analysis: portfolio description, scope of application, own funds requirement impact</li><li>Organisational structure and governance <i>[Coffee break]</i></li><li>Overview of the following processes:<ul style="list-style-type: none"><li>➤ Market data</li><li>➤ Risk calculation</li><li>➤ Profit and loss calculation</li><li>➤ IT infrastructure</li><li>➤ Data quality process</li><li>➤ Internal documentation</li></ul> <i>[Lunch break]</i></li><li>Model description: risk factors, valuation techniques, risks not in the model</li><li>Model use: internal use of the risk measurement system, internal reporting, calculation of own fund requirements, stress testing <i>[Coffee break]</i></li><li>Validation: framework and results</li><li>Internal audit</li></ol> <p><b>III. CLOSING REMARKS</b></p>

<sup>1</sup> The institution is requested to prepare clear and informative presentations for all the items listed. The Annex contains a more detailed explanation of the topics covered. The presentations should be sent to the ECB, together with the pre-application package, approximately 1-2 weeks before the pre-application meeting.

## ANNEX TO THE PRE-APPLICATION MEETING AGENDA

This section provides **guidelines concerning the ECB's minimum expectations** for each presented topic.

The institution is **requested to extend the scope** of the presentations and to include additional relevant items that are deemed crucial specifically for the **institution**. In this regard, the institution should **place emphasis on already identified model weaknesses or deficiencies, along with the remediation actions envisaged**.

The presentations should be self-contained, intelligible and focus on only relevant information. The supporting documentation should not include more than 20 slides for a one-hour presentation.

The timing for each topic can be adjusted according to the relevance of each topic; additional items will be added on request of the competent authorities.

### 1. Portfolio Analysis

#### 1.1. Portfolio description

Provide a summary and the essential details of the application portfolio and its relation to the institution's overall portfolio. This includes, for example, an overview of the internal model approach (IMA) figures (VaR, stressed VaR and, if applicable, IRC), average values of risk sensitivities, as well as an overview of OFR and exposure, compared with the overall values of the institution. The presentation may show descriptive statistics on risk categories and a breakdown of the portfolio according to key drivers (risk factors, instrument types, maturities etc.). Provide a summary and the essential details of the recent evolution of the portfolio and expected potential changes/shifts, e.g. resulting from the implementation of a new business decision made by the institution (if applicable).

#### 1.2. Scope of application

Provide a summary and the essential details of the coverage in terms of legal entities if applicable with respect to the portfolio in scope.

#### 1.3. Own funds requirements impact

In the case of initial approval, provide a summary and the essential details of the impact of the use of the internal model; in the case of a model change or extension indicate the impact of the change or extension. Impacts shall be provided in terms of VaR, stressed VaR and OFR as well as capital adequacy ratios.

### 2. Organisational structure and governance

#### 2.1. Organisational structure

Provide a summary and the essential details of the organisational structure with the most relevant information, such as organisational charts, an overview of the relevant roles of the organisational units

involved, the hierarchy, reporting lines, levels of responsibility and any other relevant information.

## **2.2. Governance**

Provide a summary and the essential details of the most relevant policies and processes related to the initial model approval or model changes in scope of the pre-application (e.g. the model development / changes and the model validation process). Provide a summary and the essential details of the operation of the market risk control unit and internal reporting.

## **3. Processes**

### **3.1. Market data**

Provide a summary and essential details that show that adequate and meaningful processes are established to ensure data quality (for example definition of tolerance levels for risk factor returns, algorithm to detect implausible values, algorithms to detect stale data [data source might not work], etc.). This may entail evidence on the procedure for dealing with missing data. Provide a summary and essential details of the contingency procedures, for cases when market data delivery from source systems fails or similar problems occur.

### **3.2. Risk calculation**

Provide a summary and the essential details of the risk calculation process giving evidence that the organisation and the processes are set up in a way that ensures the timely calculation of risk, especially taking into account all relevant market risk positions. This may include information on the timeliness of the calculation of risk numbers and its use in reports. Provide a summary and the essential details of the adequacy of independent review for market data used for risk calculation and reporting.

### **3.3. Profit and loss calculation**

Provide a summary and the essential details of the P&Ls used, the P&L calculation process, including information on how the P&Ls are calculated independently of trading units. The presentation may contain information on the adequacy of pricing instruments for the traded products, the correctness of the pricing models (formulae, parameters, etc.) and the adequacy of the numeric solutions, and may also give an overview of valuation adjustments (type, frequency, consideration in P&Ls and back-testing). Provide a summary and the essential details of how it is ensured that traders or trading areas cannot change the relevant pricing tools.

### **3.4. IT infrastructure**

Provide a summary and the essential details of the IT infrastructure, including a data flow diagram showing the relevant information regarding the IT system architecture, a map of the key applications, databases, IT components involved in the application of the IMA.

### **3.5. Data quality process**

Provide a summary and the essential details of the institution's processes/areas dedicated to ensuring the quality of the data (consistency, accuracy, etc.) and how these processes can ensure proper data

collection and storage.

### **3.6. Internal documentation**

Provide a summary and the essential details of the documentation management approach for the topics covered with this agenda (e.g. the triggers and the frequency for the documentation's update, the owners of the documents, the personnel involved in the documentation management and the bodies responsible for approvals).

## **4. Model description**

### **4.1. Risk factors**

Provide a summary and the essential details of the selection of the risk factors. The presentation may provide evidence that the model captures all material price risks. The presentation may also contain information on the proportion of risk factors time series that are proxied in the IMA and their materiality for the VaR and stressed VaR.

### **4.2. Valuation techniques**

Provide a summary and the essential details of the valuation methods or models used in the IMA (sensitivities, full revaluation, etc). The presentation may provide information on the differences from the models used to calculate the accounting P&L. Provide a summary and the essential details of the consistency of the profit and loss computation with the IMA methodology.

### **4.3. Risks not in the model**

Provide a summary and the essential details of the materiality of risks not included in the IMA. If applicable, the presentation may contain a time plan for incorporating the risks in the model and reasons for not taking into account certain market risks (especially if these risks or risk factors are taken into account in pricing models and for profit and loss calculation). Provide a summary and the essential details of how risks not in the IMA are considered in own funds requirements.

## **5. Model use**

### **5.1. Internal use of the risk measurement system**

Provide a summary and the essential details of the use of the IMA in market risk management, risk controlling, setting and supervision of limits.

### **5.2. Internal reporting**

Provide a summary and the essential details of the form, frequency, content and recipients of the institution's internal reporting, paying special attention to the reconciliation of the risk parameters used for internal reporting and those used for the calculation of own funds requirements.

### **5.3. Calculation of own funds requirements**

Provide a summary and the essential details of the institution's internal policies and procedures with

regard to the own funds requirements calculation process, e.g. sources of data, calculation methods, controls applied and roles and responsibilities of the different units and internal bodies involved in the process.

#### **5.4. Stress testing**

Provide a summary and the essential details of the methods used in designing the stress tests and the integration of the stress tests with the risk and capital management processes. A description of the role of the stress test in the decision-making process may also be included.

### **6. Validation**

#### **6.1. Validation framework**

Provide a summary and the essential details of the process, methodology and documentation for the initial and on-going validation of the IMA and the pricing functions used therein, as well as the frequency of these reviews.

#### **6.2. Validation results**

Provide a summary and the essential details of the results of the last three years' internal validation activities related to the IMA and the pricing functions used therein including the results of the tests, the conclusions, the findings and the relevant recommendations. An overview of open validation recommendations may also be provided.

### **7. Internal Audit**

#### **7.1. Internal audit**

Provide a summary and the essential details of the last three years' internal audit reviews related to the IMA and the pricing functions used therein in terms of results and recommendations, when appropriate. If it is not available or finished for this meeting (in case of initial approvals), provide a summary and the essential details of the following items:

- Internal audit plan and process
- Recommendations of previous internal audit report (including the data quality review) and current status

However, the final internal audit report shall be available to the Supervisor before the finalisation of this pre-application process. An overview of open internal audit findings may also be provided.