

WHAT DOES SCALABILITY OR PROPORTIONALITY MEAN WHEN VALIDATING A MODEL?

While SR 11-7 and OCC 2011-12 guidance provides a definition of what is a model and calls for all models to be independently validated at financial institutions, this Blog discusses the notion of proportionality when performing a validation. Rules do not hit all banks in the same fashion and even more importantly, they do not impact the same model used by different banks in the same way. It is important to understand the risk profile of the institution, how it uses the model and the firm's knowledge of the risks and limitations of the model. All of these factors need to come into play when performing a validation.

