

FORVIS

2023 Adopter CECL Implementation Road Map Series

Model Validation & Next Steps

September 20, 2022

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Meet the Presenters



Gordon Dobner

Partner
FORVIS, LLP

gordon.dobner@forvis.com



Darien Sutton

Senior Manager
FORVIS, LLP

darien.sutton@forvis.com



Alan Hodgson

Managing Director
FORVIS, LLP

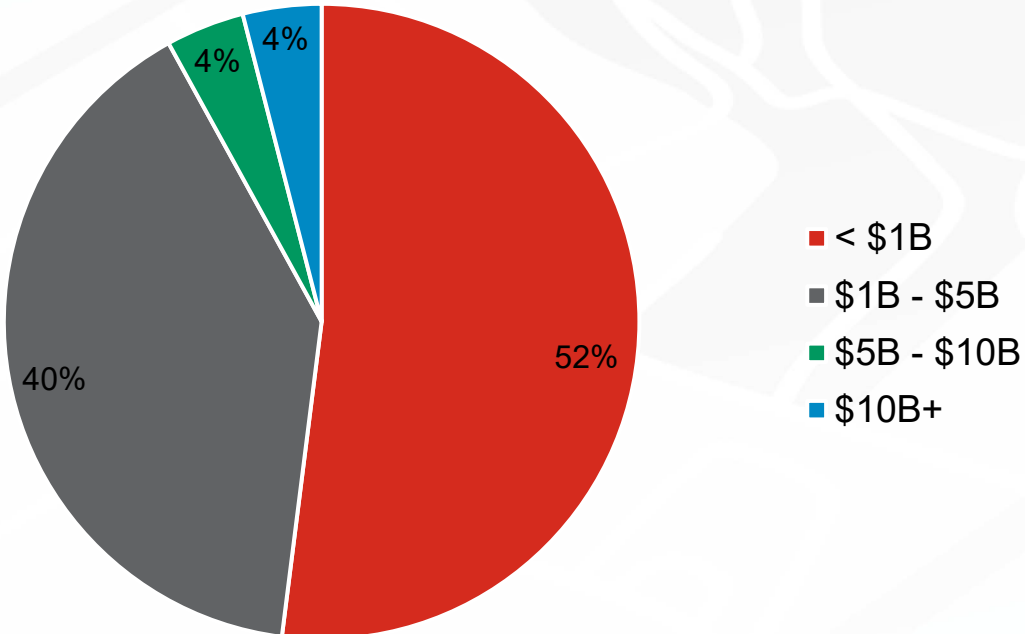
alan.hodgson@forvis.com

Agenda

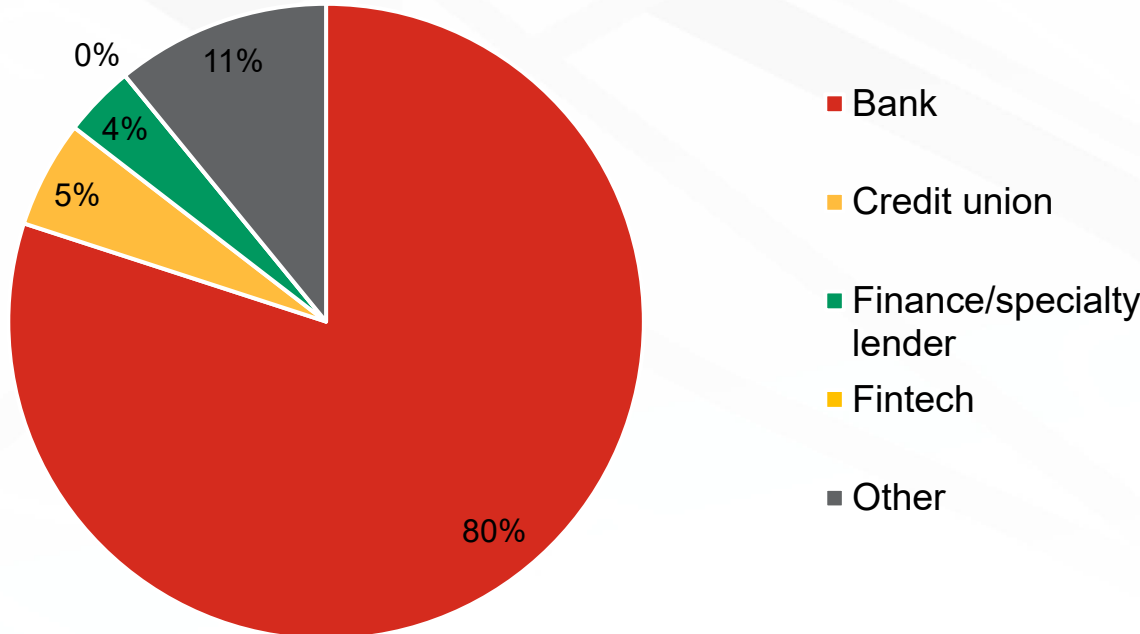
- Introductions
- Understanding Our Audience
- What Is Model Validation?
- How to Prepare for a Model Validation
- Lessons Learned from 2020 & 2023 Adopters

Survey Results

Asset/Revenue Size

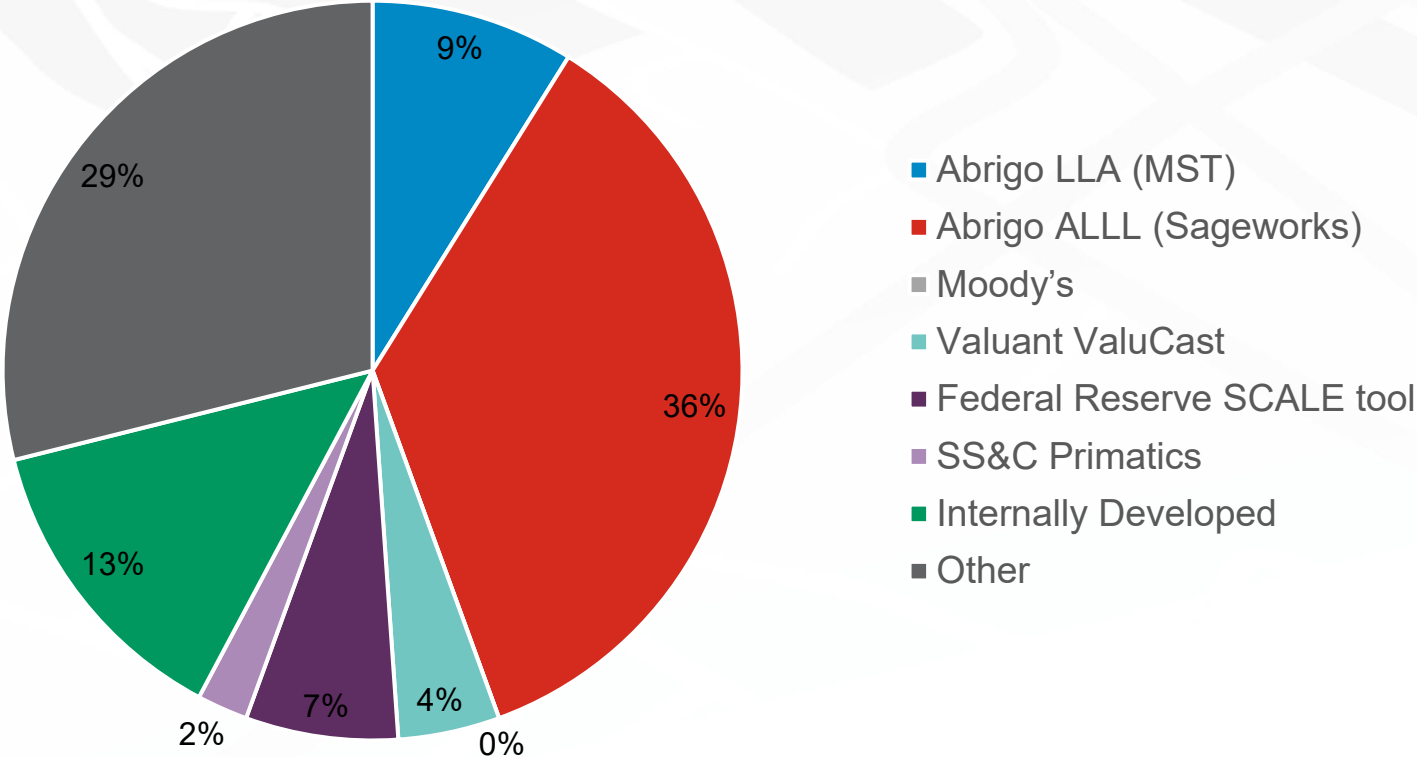


Which best describes your institution?



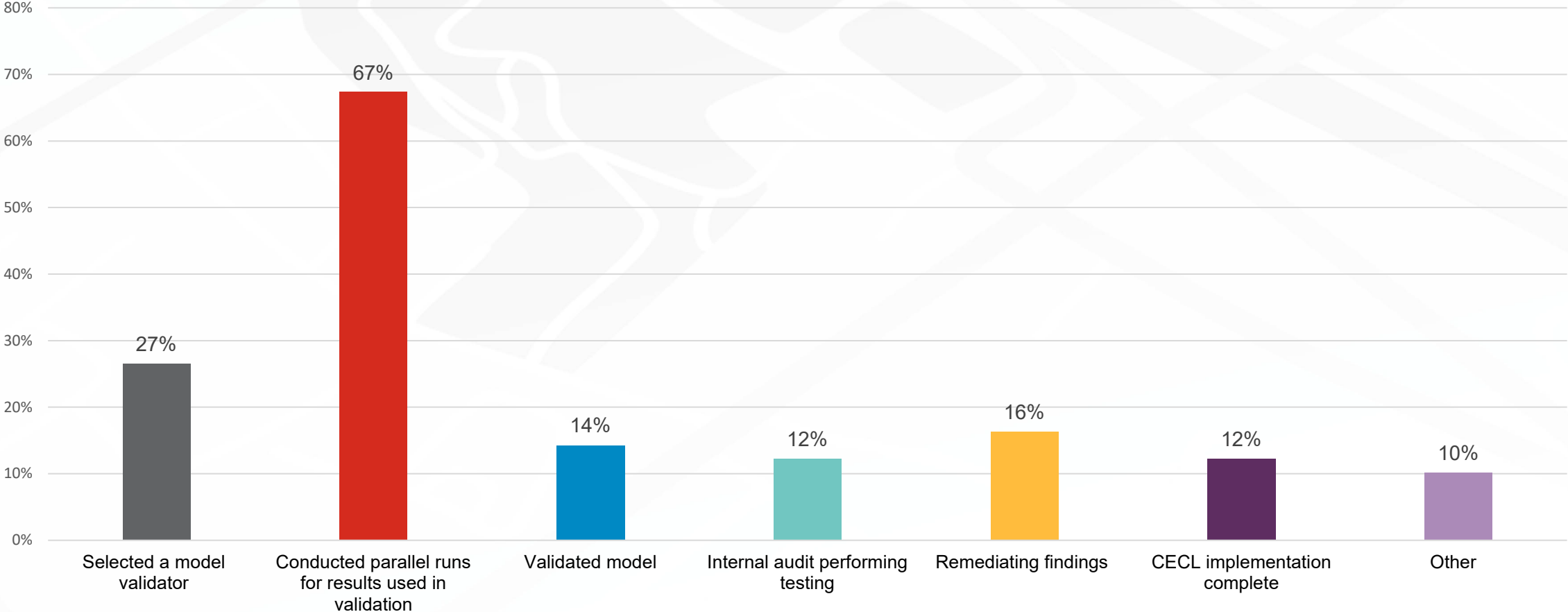
Survey Results

Who developed your CECL model?



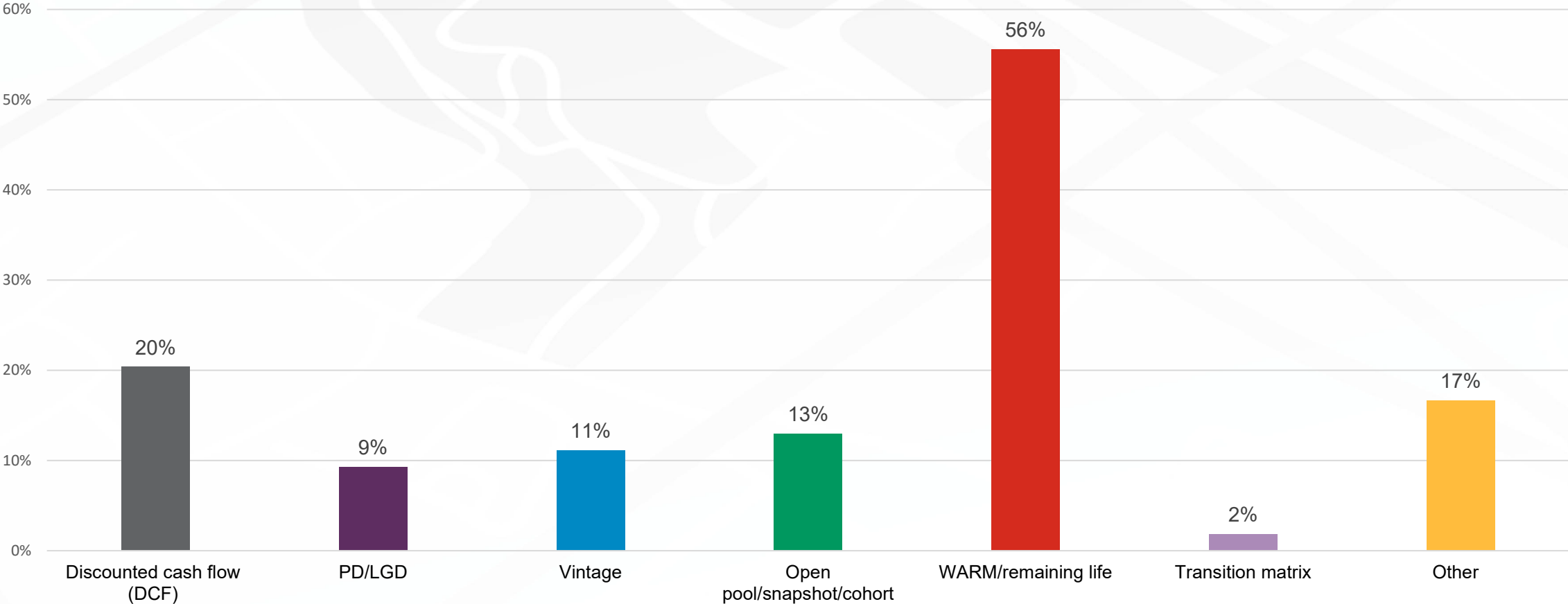
Survey Results

Where are you in your CECL adoption process? (select all that apply)



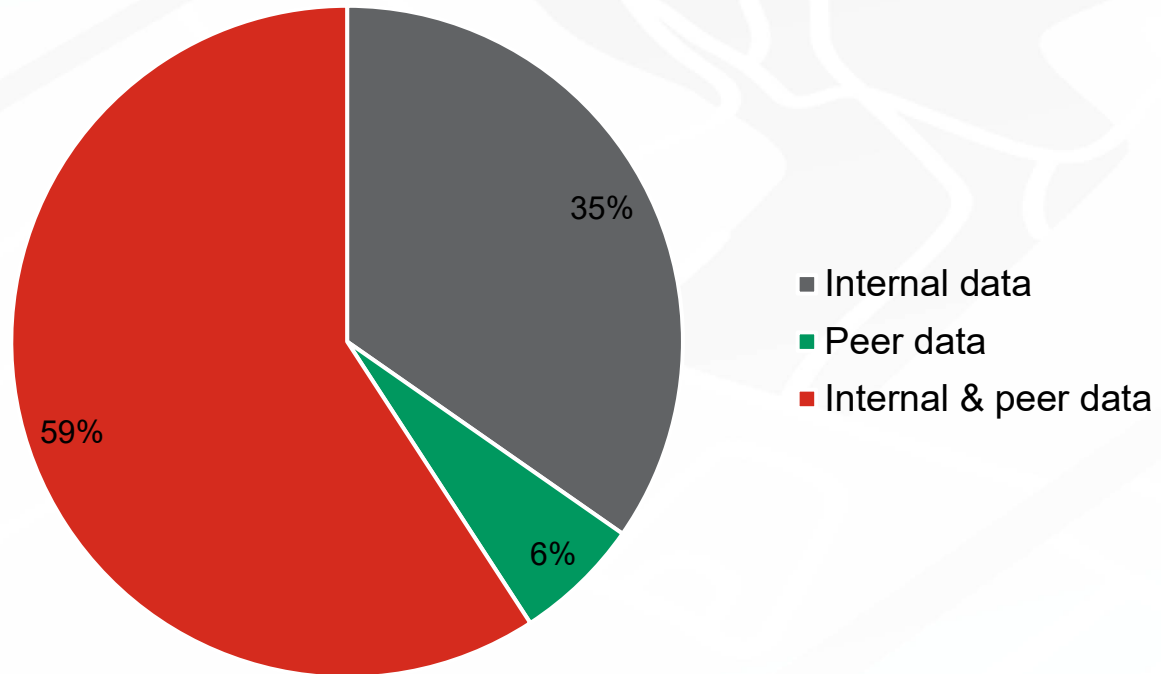
Survey Results

What type of method(s) are you using for your model? (Choose all that apply)

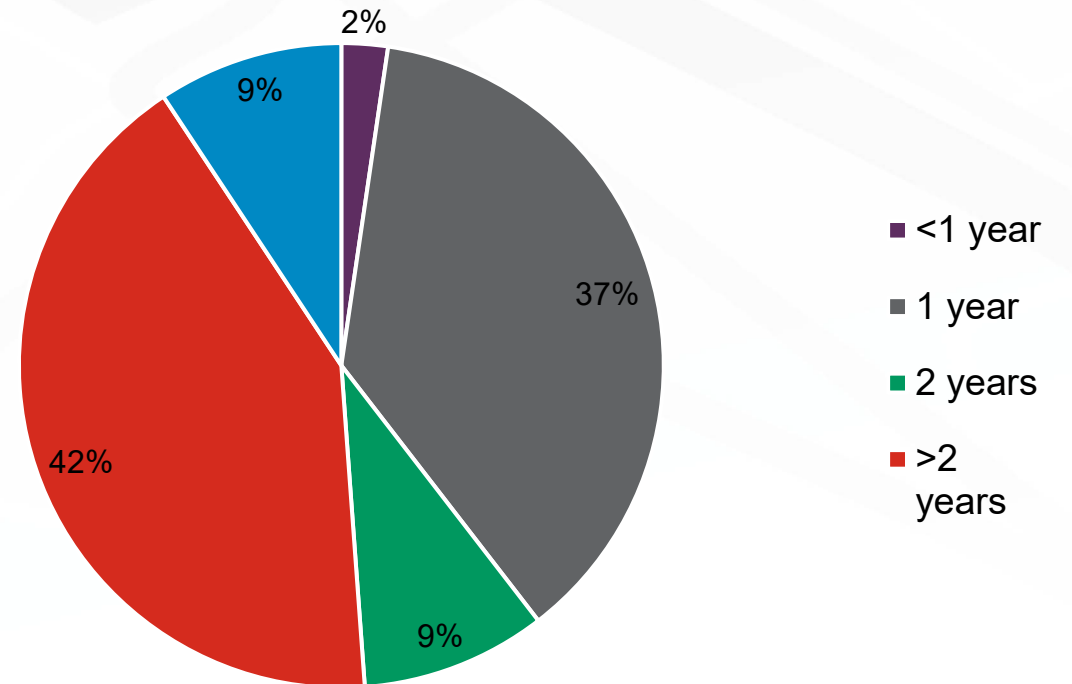


Survey Results

What is the source of data for the model?

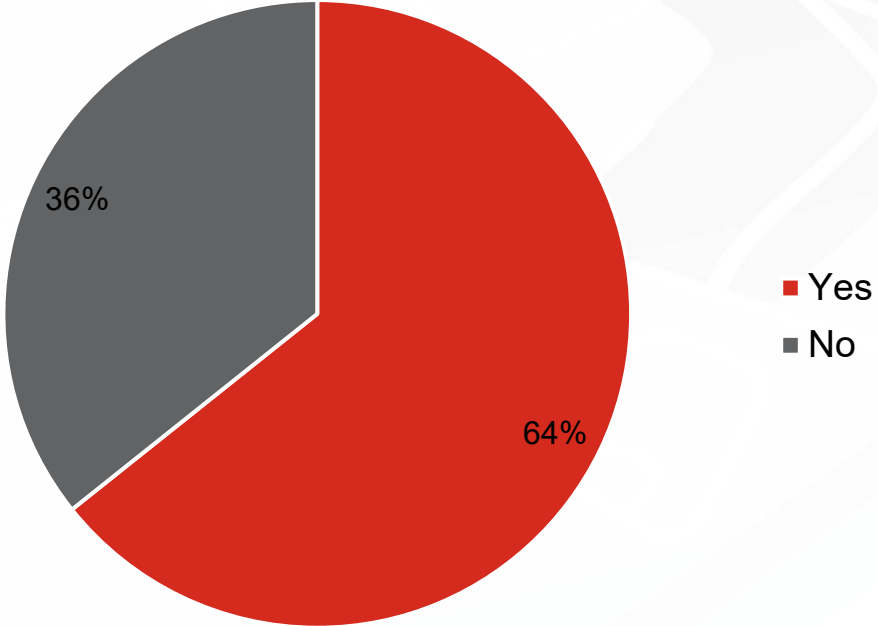


What Reasonable & Supportable (R&S) period are you using in your quantitative model?

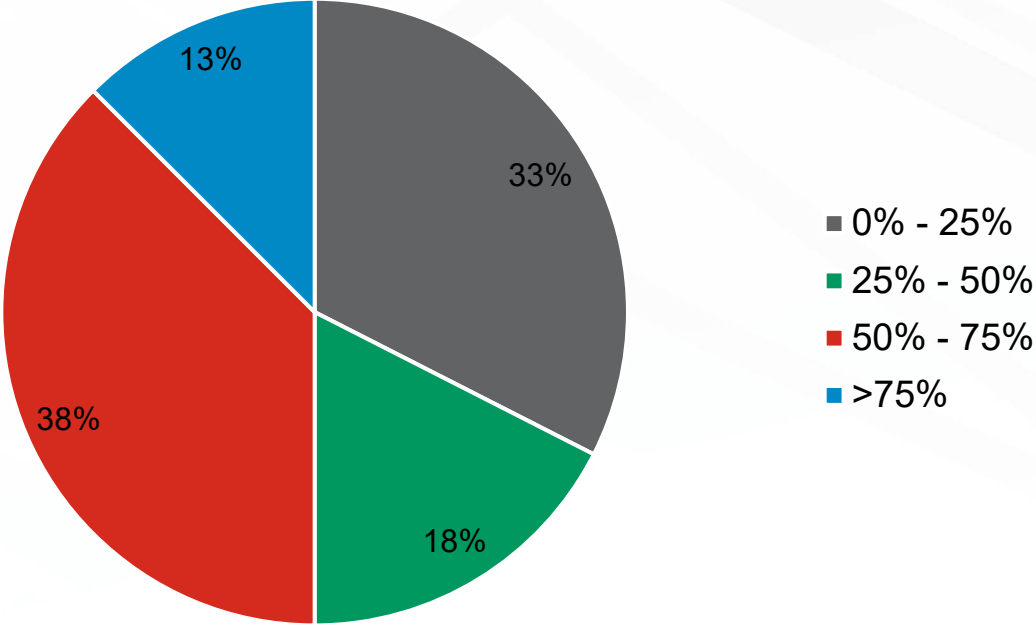


Survey Results

Have you altered your qualitative factors from the incurred loss model to align with the new CECL standard?

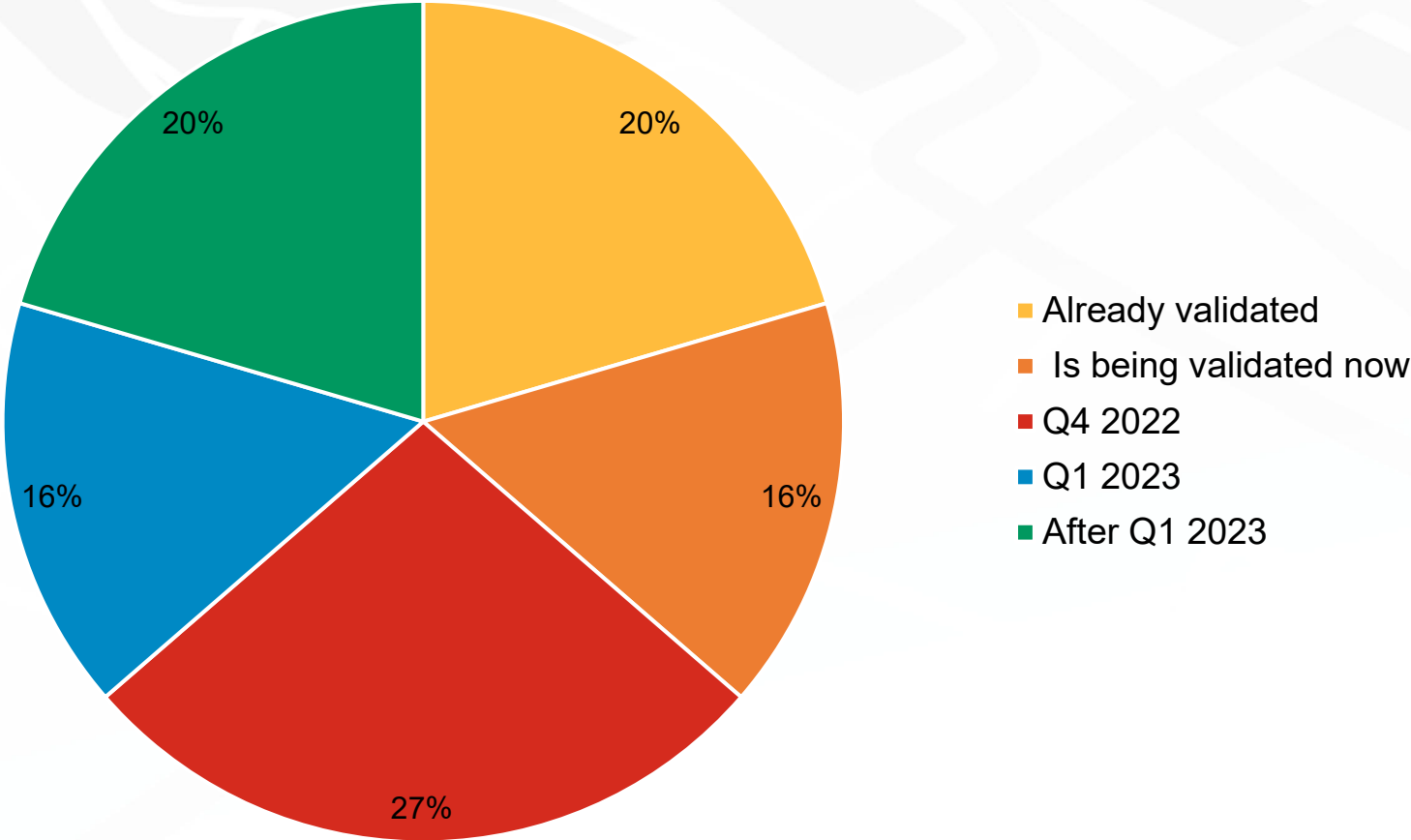


How much of the total ACL does the qualitative component represent?



Survey Results

When are you planning on getting your model validated?



Guidance on Model Risk Management

SR 11-7 – Supervisory Guidance on Model Risk Management

- Issued April 2011
- Banks regulated by the Federal Reserve

OCC 2011-12 – Supervisory Guidance on Model Risk Management

- Issued April 2011
- Banks regulated by the OCC

FIL-22-2017 – Adoption of Supervisory Guidance on Model Risk Management

- Issued June 2017
- Applicable to certain FDIC-supervised institutions
- States for institutions over \$1Bn in assets

Three Lines of Defense

First Line: Lines of Business (LOB)

- Operational functions within the bank
- Risk Awareness
- Model identification (model vs. tool)

Second Line: Risk Management

- Enterprise-wide Risk Management (ERM) program responsible for providing effective challenge to management
- Risk Oversight, Risk Appetite

Third Line: Internal Audit

- Independent review & testing under an established internal control framework
- Control testing – more than just monitoring

Model Validation Framework



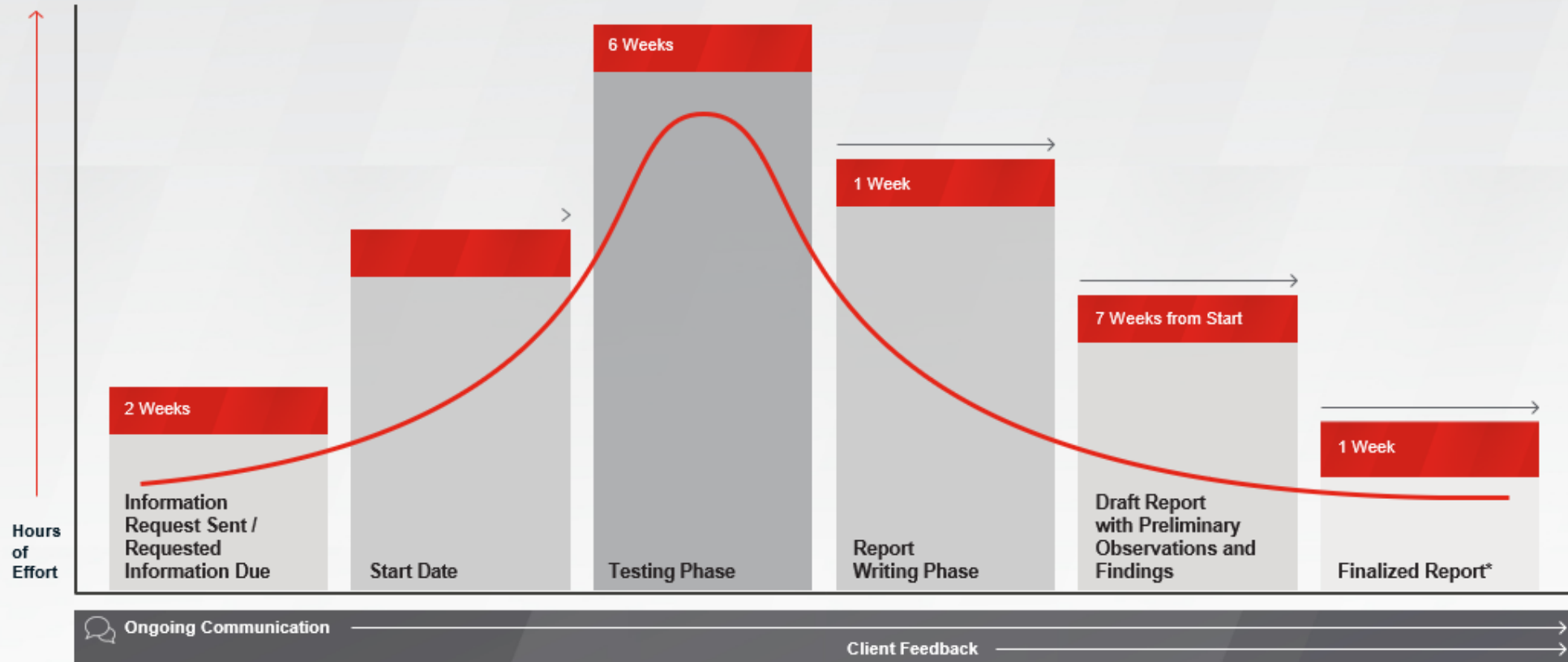
AREA	OVERVIEW
1 Conceptual Soundness, Model Theory and Design	<ul style="list-style-type: none"> Theory Model Design Alternative Approaches Model Components
2 Inputs, Assumptions and Data	<ul style="list-style-type: none"> Model Inputs and Sources Model Assumptions Model Interdependencies Model Limitations and Weaknesses
3 Processing and Calculations	<ul style="list-style-type: none"> Model Processing and Calculations
4 Ongoing Monitoring	<ul style="list-style-type: none"> Ongoing Monitoring Plan Sensitivity Testing Stress Testing Benchmarking
5 Outcomes Analysis	<ul style="list-style-type: none"> Model Output(s) Back-Testing Results
6 Change Management, Governance and Controls	<ul style="list-style-type: none"> Change Management Model Access Control Model Governance and Data Integrity Controls
7 Documentation	<ul style="list-style-type: none"> Documentation

How to Prepare for a Model Validation

- What to expect (& not expect) from a model validation?
- What to do before you start your model validation?
- What should I expect for a timeline?
- What if I'm not ready for my validation?

Model Validation Timeline

Timeline



*Pending timely responses from key model stakeholders. The estimated timeline for the model validation is 6-8 weeks and any delays in receiving the preliminary information request or responses to questions may delay the timing of the finalized report from the proposed timeline above.

CECL Panelist Discussion

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Meet the Panelists



Lance Holladay

Treasurer
Renasant Bank

Lholladay@renasant.com



Todd Sharkey

Chief Credit Officer
Sunrise Banks

todd.sharkey@sunrisebanks.com

QUESTIONS

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WEBINAR

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