

# Chapter 1

## Commission Delegated Regulation (EU) 2016/101

## Article 19 Systems and controls requirements

(1) AVAs shall be authorised initially, and monitored subsequently, by an independent control unit.

(2) Institutions shall have effective controls related to the governance of all fair-valued positions, and adequate resources to implement those controls and ensure robust valuation processes even during a stressed period. These shall include all of the following:

- (a) at least an annual review of valuation model performance;
- (b) management sign-off on all significant changes to valuation policies;
- (c) a clear statement of the institution's risk appetite for exposure to positions subject to valuation uncertainty which is monitored at an aggregate institution-wide level;
- (d) independence in the valuation process between risk taking and control units;
- (e) a comprehensive internal audit process related to valuation processes and controls.

(3) Institutions shall ensure there are effective and consistently applied controls related to the valuation process for fair-valued positions. These controls shall be subject to regular internal audit review. The controls shall include all of the following:

- (a) a precisely defined institution-wide product inventory, ensuring that every valuation position is uniquely mapped to a product definition;
- (b) valuation methodologies, for each product in the inventory covering choice and calibration of model, fair value adjustments, AVAs, independent price verification methodologies applicable to the product, and the measurement of valuation uncertainty;
- (c) validation process ensuring that, for each product, both the risk-taking and relevant control departments approve the product-level methodologies described in point (b) and certify that they reflect the actual practice for every valuation position mapped to the product;

(d) defined thresholds based on observed market data for determining when valuation models are no longer sufficiently robust;

(e) a formal IPV process based on prices independent from the relevant trading desk;

(f) a new product approval processes referencing the product inventory and involving all internal stakeholders relevant to risk measurement, risk control, financial reporting and the assignment and verification of valuations of financial instruments;

(g) a new deal review process to ensure that pricing data from new trades are used to assess whether valuations of similar valuation exposures remain appropriately prudent.