

Chapter 1

Commission Delegated Regulation (EU) 2018/959

Article 4 Operational risk events related to model risk

Competent authorities shall confirm the following when assessing that an institution identifies, collects and treats data on operational risk events and losses that are related to model risk, as defined in point (11) of Article 3(1) of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, for the purposes of both management of operational risk and calculation of the AMA own funds requirement:

(a) that at least the following events, and the related losses, resulting from models used for decision-making are classified as operational risk:

(i) improper definition of a selected model and its characteristics;

(ii) inadequate verification of a selected model's suitability for the financial instrument to be evaluated or the product to be priced, or its suitability for the applicable market conditions;

(iii) errors in the implementation of a selected model;

(iv) incorrect mark-to-market valuations and risk measurement as a result of a mistake when booking a trade into the trading system;

(v) use of a selected model or its outputs for a purpose for which it was not intended or designed, including manipulation of the modelling parameters;

(vi) untimely and ineffective monitoring of model performance to confirm whether the model remains fit for purpose.

(b) that events related to the under-estimation of own funds requirements by internal models authorized by competent authorities are not included in the identification, collection and treatment of data on operational risk events and losses related to model risk.