

Chapter 1

Commission Delegated Regulation (EU) 2016/2251

Article 18 Qualitative requirements

(1) Counterparties shall establish an internal governance process to assess the appropriateness of the initial margin model on a continuous basis, including all of the following:

- (a) an initial validation of the model by suitably qualified persons who are independent from the persons developing the model;
- (b) a follow up validation whenever a significant change is made to the initial margin model and at least annually;
- (c) a regular audit process to assess the following:
 - (i) the integrity and reliability of the data sources;
 - (ii) the management information system used to run the model;
 - (iii) the accuracy and completeness of data used;
 - (iv) the accuracy and appropriateness of volatility and correlation assumptions.

(2) The documentation of the risk management procedures referred to in point (b) of Article 2(2) relating to the initial margin model shall meet all of the following conditions:

- (a) it shall allow a knowledgeable third party to understand the design and operational detail of the initial margin model;
- (b) it shall contain the key assumptions and the limitations of the initial margin model;
- (c) it shall define the circumstances under which the assumptions of the initial margin model are no longer valid.

(3) Counterparties shall document all changes to the initial margin model. That documentation shall also detail the results of the validations, referred to in paragraph 1, carried out after those changes.