

Getting control of End User Computing (EUC)

The widespread use of shadow IT such as spreadsheets should be a cause of concern for Senior Managers under new SMCR rules. Evidencing effective control will be key

All financial institutions generally make extensive use of EUC applications to deliver core processes, including portfolio management, market risk, credit risk, tax, finance management, as well as management and regulatory reporting. With enhanced technology, the development of models is increasingly moving from IT directly to the business.

While these EUC applications prove very popular with end users who were looking for speed and flexibility, they present a challenge to the corporate IT function who are looking for the same level of control, auditability and transparency they have in their enterprise application environment.

Increasing Regulatory Scrutiny

Regulators are responding to the increasing use of EUC by insisting on greater scrutiny of model frameworks through regulations such as SR 11-7 Model Governance (US), TRIM (EU) and SS3/18 Stress Testing (UK). In addition, US institutions with \$1bn or more in assets must comply with the FDIC's model risk management requirements.

In the UK, the upcoming operational resilience regulation will place similar obligations on institutions, regardless of their size. In addition, SM&CR brings in personal accountability and requires senior managers to be able to evidence control and oversight over the business functions and activities that fall under their control

Why Is EUC Risk Important?

While EUC risk is universal, it isn't as well known or perhaps even recognised, as some other enterprise risks, such as operational, financial and regulatory risk. There are three reasons why EUC risk matters:

1. It's in all organisations

EUC risk is present in any organisation that relies on spreadsheets, databases and other computing tools that sit outside of the IT application cycle. Models that aren't tested against company policy may contain errors that lead to poor decisions. Errors in one model can be compounded if other models depend on it. If changes to models aren't documented or audited, there's no clarity about model ownership, authority and responsibility.

2. It contributes to other business risks.

EUC risk contributes to a whole host of other operational, model, regulatory and conduct risks.

3. It is often a hidden risk

Many institutions are not fully aware of the extent of their exposure to EUC.

Errors can lead to huge financial losses and major reputational damage.

What has changed?

Regulators and auditors have previously focused on model validation, ensuring that the structure, design, assumptions and model use, reasonably reflect reality.

Their scrutiny has now extended to full Model Risk Management (MRM), which includes ensuring the appropriate levels of controls are in place to manage the modelling environment. The compliance framework has also been extended cover the tools and calculators that models rely on.

Implementing an MRM Framework

Key to implementing a comprehensive MRM framework is the need to implement an environment that disrupts end-users the least. The pressure on model teams to develop, implement and update models, in response to a business imperative, is significant. Any MRM framework will need input from the modellers themselves, as application owners, but the framework also needs to be easy to use, update and report on as needed.

Delivering a comprehensive MRM framework demands a consistent and unified management of models and their associated tools and calculators for all parties — whether model owner, developer, reviewer or executive.

Key features of an effective Model Risk Management Solution

There are three pillars to an effective solution:

A central inventory of models, tools and calculators: Seek a solution that provides comprehensive capabilities for identifying, scanning and discovering your company's entire inventory of models, tools and calculators. It should enable you to apply risk ratings to models according to their materiality, complexity, criticality, impact and level of control. You'll also want data lineage, interdependence and mapping functions, so that you can understand the connections between models within and across your corporate and Shadow IT environments.

Model Lifecycle Management: To make model lifecycle management as straightforward as possible, look for a solution that offers:

- Automated model risk management workflow and task management capabilities
- A flexible and robust task management and attestation engine
- Incident and issue management for both production and testing phases
- Proactive monitoring and alerting to help ensure compliance

Security and audit management: Make sure the solution you choose provides a complete audit trail of updates and interactions within the model risk management framework. You'll also want role-based security management that gives you the flexibility to define and refine roles and access to the solution.

What challenges does EUC present

Inaccuracy of data

Spreadsheets generally have few controls in place to verify the accuracy of data entry with data often being entered by those responsible for ensuring content is correct.

Lack of Control

It's all too often far too easy to modify a spreadsheet. The issue is that changes aren't documented or tracked

Unknown links between sheets

If spreadsheets are linked, a change on one could have a knock-on effect on another. Unless the links are clearly understood, the source of knock-on effect could be almost impossible to find

Version Control

Organisations will often have multiple spreadsheets in use at any one time. Keeping track of them and the individuals who update them can be a real challenge.

BCP/DR

EUC tools often are not covered by business continuity and disaster recovery plans, even though they are critical to BAU

Key Man dependency

For the more complex models, there is often a key man dependency on the person that created the model

Do please contact us for more information on how to control risks around your end user computing applications

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