COMMENTS FROM THE ASSOCIATION OF SUPERVISORS OF BANKS OF THE AMERICAS (ASBA) TO THE CONSULTATIVE DOCUMENT

"Operational risk – Revisions to the simpler approaches"

(ISSUED BY THE BASEL COMMITTEE ON BANKING SUPERVISION FOR COMMENTS BY JANUARY 6, 2014)

The Association of Supervisors of Banks of the Americas (ASBA), is a civil association registered in Mexico since 1999, which brings together forty-one bank and financial inclusion regulation and supervision agencies from thirty-six countries from the Americas and Spain.

ASBA's objectives are to:

(i) promote and maintain close communication among the Association's Members facilitating their cooperation and promoting their technical capabilities development;

(ii) provide its members with a high-level discussion forum for the exchange of information, ideas, techniques, experiences and knowledge on bank regulation and supervision;

(iii) promote and conduct research work on financial regulation, supervision, and financial stability;

(iv) organize and conduct systematic and permanent training programs, as well as technical cooperation amongst its Members;

(v) promote cooperation and technical exchange with non-member financial sector supervisors, standards' setting institutions, international technical cooperation agencies, and organizations representative of the supervised entities.

In its role as a dialog promoter and a forum for high-level discussion, ASBA shares all relevant consultative documents with its members to prepare regional responses. This document presents the views of several of its Associate Members on the "Operational risk – Revisions to the simpler approaches" consultative document.

Comments to the Consultative Paper

1. Dealing with banks facing specific situations

Paragraphs 1, 41, as well as the introduction under the heading "dealing with banks specific situations", indicate that, based on the Alternative Standardised Approach (ASA), both business lines, retail and commercial banking, are eligible for calculating capital charges under "a fixed percentage of their loans and advances". Therefore, and even though paragraph 1 states that this approach can be used discretionally by national authorities, it is suggested to explicitly point out that the implementation of such a criteria may be extended to other credit segments (e.g. microcredit) due to the fact that operational risk can have a more or less profound effect depending on the particular credit concentration or business specialization of different entities with very high or very low net interest margin.

2. Structure of incentives

The current three-method-scheme for calculating capital for operational risk has worked appropriately in several jurisdictions as a strong incentive to achieve improvements when managing this type of risk. One of our Associate Members indicates that banks must have in place – prior the approval from the regulatory authority - a robust management framework for operational risk to be eligible to move from BIA to ASA, thus, reducing a significant amount of additional capital requirements to account for operational risk.

However, as proposed in the consultative document, substituting both the BIA as well as the ASA for a unique standard method (SA) creates challenges for the substitution of the current incentives' scheme for one that could also produce the effect of promoting improvements when managing operational risk. The latter is particularly important for small and mid-sized banks as well as micro financial entities.

Therefore, the Association recommends the Committee to further extend its analysis of the framework providing guidance on possible incentive schemes aimed at improving the operational risk management, even without the need to develop advanced approaches.

3. Treatment of insurance policies

The suggested Business Indicator (BI) explicitly states that items such as paid policies or reimbursements accruable to purchased insurance or reinsurance policies are not part of the BI. However, in our view, bought policies and protections against infidelity, employees' misbehavior and others, are useful tools for reducing operational risk at a whole.

Therefore, the Association recommends adding to the bullets detailed on page 19, as well as in Annex 4, A.2 regarding data collection, the possibility that the national authority to - on a discretionary basis - redefine the accounting definition of Gross Loss by including insurance recoveries and other similar items.

4. Extension of Methodology

Although this is a document aimed at banking institutions, the Association recommends including a brief mention - in the most convenient section - stating that the recommended approach may also be applicable to other related entities such as insurance companies, investment portfolios, non-bank banks, etc. that might have a direct or indirect relationship with the relevant bank.

5. Complimentary parameters

As indicated in the consultative document, the use of the BI may be inappropriate as an accurate measure of the exposure to operational risk for entities operating with higher financial margins. It is also stated that the Committee is analyzing this situation based on the results of the current qualitative study with the objective of identifying complimentary parameters.

Since the definition of the above-mentioned parameters is a relevant issue to integrally assess the implementation of the new standardized method, the Association recommends the Committee to reveal them for further comment prior to the issuance of the final document, once they are identified.