

ASF RESPONSE TO BCBS CONSULTATION ON

STANDARDISED MEASUREMENT APPROACH FOR OPERATIONAL RISK

As a unique representative body of all the French specialised credit institutions and financial institutions which represents 285 entities, ASF contributes to an appropriate recognition of the specialised financial activities like equipment and real estate leasing, factoring, consumer credit and auto loans and leases, mutual guarantee societies which – with an outstanding of more than €220 billion in 2015 – accounts for about 20% of total amount of credits to the real economy in France.

We would like to thank you for giving us the opportunity to respond to the “Standardised measurement approach for operational risk” Consultation Paper.

We intend to draw your attention to some facts and suggestions related to the specificities of our specialised credit activities.

Preliminary comments

We wish to make the following preliminary statement.

As the Basel Committee has announced, the final regime - of which the revision of the operational risk framework is a part - should not generate supplementary capital requirements.

Considering this position, there should be no supplementary capital requirements in respect of the revision of operational risk framework. Yet the proposed Standardised Measurement Approach (SMA) would result in a significant increase, especially for those institutions currently using Advanced Measurement Approaches.

Basel rules apply to all credit institutions in Europe and not only to big international banks. As Europe is the first economic zone in the world, it is justified to provide better calibrations on a solo but also on a consolidated basis for low risk activities such as factoring, leasing and consumer credit.

In addition to the increase of capital requirement, the measurement changes would result in significant costs of implementation, considering the changes of the parameters and data series to be observed, with a proportionally bigger impact for smaller institutions.

Q1. What are respondents' views on the revised structure and definition of the BI?

First of all, we welcome the BCBS's proposal to adjust the treatment of financial and operating leases to ensure consistency of treatment across institutions and jurisdictions. In particular, we support the proposal to net all financial and operating lease incomes and expenses and to include them into the interest component.

Secondly, we wish to underline that if the proposed approach is designed to guarantee simplicity and reduce the variability of the risk models, it would also reduce the risk sensitivity.

In the SMA, the proposed Business Indicator (BI) buckets suggest that banks of the same size have the same operational risk exposure, not considering the diversified business models. We believe that business models relying on simple, industrialised and small amounts credit granting, such as

consumer credit, factoring and equipment leasing present much lower operational risk profile than other types of credit activity.

Moreover, within these lower risk profile fields of specialised credit activity smaller institutions which BI is below 1 Bn € (Buckett 1) will not be able to include the loss component, and thus will not benefit from their lower operational loss experience.

Most ASF members are subsidiaries of banking groups. The fact that, as currently defined, the Standardised Measurement Approach is to be calculated on a consolidated basis could lead for those subsidiary institutions to higher capital requirements than if they were calculated on a solo basis. This point raises a level playing field issue for banking groups subsidiaries.

We therefore suggest that small, specialized institutions that are part of a group should benefit from their lower and simpler structure and that such benefit should be maintained also at consolidated level, as those companies should be in the position to have a better control of their operational losses than others. In order to achieve this result, the SMA calculation should follow a "bottom up" approach instead of a "top down" approach, so that the total group requirement will be the sum of the individual requirements.

Finally, we consider that the proposed BI approach does not take enough in consideration the current operational risk management practices. We believe that the quality of the risk management framework is more reliable than the single volume of activity in order to determine the exposure of an institution to operational risks.

Q2. What are respondents' views on the inclusion of loss data into the SMA? Are there any modifications that the Committee should consider that would improve the methodology?

We are concerned by a potential lack of comparability of loss statistical data collection, among institutions and among jurisdictions. We think it is important that a clear definition is provided so that institutions use the same reference when calculating the capital requirements. Otherwise a level playing field issue would be raised.

We are concerned regarding data collection requirements which we believe will be particularly burdensome for smaller entities. Ten years observation period may reduce the volatility of the results, but might be operationally difficult to implement for smaller institutions. Moreover this long observation period does not take enough into account the current management and control practices that could have been improved over the most recent period of time.

Globally, it seems that the proposed approach is based on a backward looking rationale, that neither takes into account the current risk management and control procedures, nor encourage the improvement of the existing procedures. A forward looking component that incentivizes improvement in operational risk management should be introduced in the proposed SMA.

We believe that the insurance coverage should be taken into account to reduce the Loss component, as an operational risk mitigating factor.

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