

Standardised measurement approach for operational risk

Response to BCBS consultation

02 June 2016

Introduction

The **Building Societies Association** (BSA) represents all 44 UK building societies. Building societies have total assets of over £345 billion and, together with their subsidiaries, hold residential mortgages of over £270 billion, 21% of the total outstanding in the UK. They hold over £250 billion of retail deposits, accounting for 18% of all such deposits in the UK. They employ approximately 40,000 full and part-time staff and operate through approximately 1,550 branches.

The stated scope of the proposed SMA framework is for large, internationally active banks only, but within the EU the final framework is expected to be applied to some, or all, other banks, even where purely domestic. Although almost all of our members currently do not use a modelled approach, since the SMA will also replace the existing standardised “basic indicator” approach, our members therefore have a direct interest in the result.

General points

We welcome, and commend to the BCBS’s consideration, the response from the European Association of Co-operative Banks (to which the BSA belongs) and also the more detailed and technical response being submitted by our UK colleagues at the British Bankers’ Association, with whom we have collaborated in discussions on the BCBS CP. Given that our members’ main interest lies in the replacement of the basic indicator approach by the SMA, with any resulting increase in complexity, our own response focuses on that particular area.

Specific comments

We agree with the BBA, and others, that there should be recognition of the role of insurance in mitigating operational risk.

We also agree with the BBA that institutions in Bucket 1 (BI < € 1 bn) should have the option, if they have the necessary capability, of including the loss component, and calculating the internal loss multiplier.

At the same time, we are concerned that there should not be an excessive cliff effect at the boundary of Buckets 1 and 2. As institutions grow and develop, and their BI increases, the sophistication of their operational risk capability will also increase, but not necessarily in an exactly parallel and continuous manner. Rather, we think institutions that have just moved into the lower end of Bucket 2 (a move which could happen passively- e.g. as a result of currency movements) might need more time to generate the necessary inputs in accordance with the minimum loss data standards set out in the CP. Accordingly, we call for either (i) optionality on the use of LC / ILM to be extended to Bucket 2 as a whole ; or (ii) as a minimum, institutions moving from Bucket 1 to Bucket 2 should retain the option not to use the LC / ILM for three complete financial years after that transition.

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The Building Societies Association (BSA) is the voice of the UK's building societies.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the government and parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £340 billion, and account for approximately 20% of both the UK mortgage and savings markets