Comments on Basel Committee document –
Revisions to the principles for the sound management of operational risk

Loss Event Type Classification

The revision made on Sound management of Operational risk is a good opportunity to revise also the table of Loss Event Type Classification, which has been established about 20 years ago, and never revisited since then.

The table is needed of course for capital calculation, but first of all - for having common language in collecting loss data, drawing conclusions, and reporting about the operational risk profile – the risk exposure of the business units and the whole firm. In @22 i), it is written: "provide for a common taxonomy of operational risk terms, to ensure consistency of risk identification, exposure rating and risk management objectives across all business units… it can also flag those operational exposures that partially or entirely represent legal (including conduct), model and ICT (information and communication technology, including cyber) risks …". Those 3 types of risk – legal, model and ICT are not represented in the Loss Event Type Classification table. In note 13, which follows this paragraph, it is written – "an inconsistent taxonomy of operational risk terms may increase the likelihood of failure to identify and categorize risks, or failure to allocate responsibility for the assessment, monitoring, control and mitigation of risks."

In @34 a), "Operational risk event data" is considered as the first tool used for identifying and assessing operational risk. It is recommended to "maintain a comprehensive operational risk event database … it includes internal loss data, … external operational loss event data …". For all these a robust common language is needed.

In the time since the table has been established, some new risks emerged, which are not reflected in the current table, like: business continuity, outsourcing, regulatory compliance, misconduct, money laundering and some more.

For all these reasons, update of Loss Event Type Classification is really needed – new level1, level2 categories, changing terms of some risks, and so on, and adding this table to this document.

Legal risk (@22 i)

It is recommended to say a few words about managing legal risk as a part of operational risk – should there be a process of identification and assessment of legal risks with the same tools as for operational risks? Should they be identified with the same Event Type categorization as the operational risks ?

Regards,

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