

Set up in 1990, the Czech Banking Association (CBA) is the voice of the Czech banking sector. The CBA represents the interests of 40 banks and foreign branches operating in the Czech Republic: large and small, wholesale and retail institutions. The CBA is committed to supporting quality regulation and supervision and consequently the stability of the banking sector. It advocates free and fair competition and supports the banks' efforts to increase their efficiency and competitiveness.

We appreciate the opportunity to comment on d355 Consultative Document **STANDARDISED MEASUREMENT APPROACH FOR OPERATIONAL RISK**.

Overall we are afraid of possible deterioration of operational risk management in the entity; particularly for AMA banks we see a concern in the formula which does not give enough incentive to bank executive management to further invest into prospective operational risk mitigation and internal control system improvement.

In more detail we are of the view that:

- (1) All other risk types under Pillar 1 prudential regulation (market and credit risk) are supposed to be quantified at level corresponding to 99.9% quantile. In case of combination of BI and Loss component with various weights, it is questionable whether such basic principle is still followed.
- (2) Formula, how is designed, gives rather unfavourable treatment for AMA retail oriented banks with good profitability and low level of losses, while TSA entities can gain from OR capital decline.
- (3) For banks which fail under bucket 1 (majority of banking institution in Eastern Europe) we do not see any rational why formula does not reflect anyhow OR losses.
- (4) The capital charge is not a monotonous function of input parameters - a bank in bucket 2 (for example just above an entry level for bucket 2) might have a final capital charge lower than a bank in bucket 1.
- (5) Formula is past looking, we are lacking prospective component in the formula, currently reflected in AMA modelling via scenarios.
- (6) Insurance recoveries should be recognised in loss components since insurance programs are an integral part of operational risk management and insurance recoveries tend to be more predictable than recoveries from third parties which might be reflected in a loss component (it is not explicitly requested to use gross data in a loss component).
- (7) Calculation of loss component does not give as clear understanding particularly rational under (7x5x7) approach which stresses extreme losses.

- (8) It is not properly treated how to deal with super-additivity of the formula (sum of individual capital charges might be lower than a capital charge on consolidated level) which might have a significant impact on capital charge allocation within financial groups.

We hope that our response to the Consultation Document is sufficiently clear and our views are helpful.