

Commerzbank AG, Kaiserstraße 16, 60311 Frankfurt

Group Risk Controlling & Capital Management

Mitsutoshi Adachi
Chair, Working Group on Operational Risk
Basel Committee on Banking Supervision
Centralbahnplatz 2
4051 Basel, Switzerland

Jens P. Falke
Postal address:
Kaiserstraße 16, 60311 Frankfurt
Telephone +49 69 136 52752
Fax +49 69 405652451
Jens.Falke@commerzbank.com

June 1, 2016

Commerzbank Response to BCBS d355: Standardised Measurement Approach for operational risk – Consultative Document

Dear Mr. Adachi,

COMMERZBANK welcomes the replacement of the current approaches for operational risk and supports the implementation of a new standardised approach with

- Increase of comparability between the institutions concerning the capital requirement and
- Increase of simplicity

mentioned as the main goals.

Nevertheless, COMMERZBANK has some comments concerning the current Consultative Document and would like to take the opportunity to respond to the Basel Committee on Banking Supervision's (BCBS) proposed Standardised Measurement Approach (SMA) for operational risk. As the comments of the industry regarding the Business Indicator component in the consultation of d291 are already factored into d355, our comments concentrate on the newly introduced loss component.

1. Increasing risk sensitivity in the Loss Component

Uniform criterias for a data relevance check as part of the SMA methodology would increase risk sensitivity and remain comparability.

In the proposed design of the Loss Component all historical loss data of the last 10 years are used. The risk profile changes over time and there might be situations, where the current risk profile of an institution is not reflected by past data. Therefore we propose the following to fully achieve the goal of risk sensitivity:

In order to adapt the Loss Component to the current risk profile of a bank, the possibility shall be included to remove from the loss history losses that will not happen again in the future. Examples include discontinued business or products, success in remediation actions, changes in law, etc. A clear guidance is key to avoid different treatment due to national discretion.

2. Preventing cliff effects

Using the portion of loss above each threshold is significantly more stable and reduces potential cliff effects.

The current design will lead to unintended increases/decreases in capital requirements (cliff effects) due to the designed buckets in the Loss Component. The latter distinguishes between loss events above the minimum threshold proposed to be set at € 10 000, above € 10 million and above € 100 million (size buckets). The average total annual losses in each size bucket are multiplied with a factor (7 / 7 / 5) and added up, e.g. a € 10 million loss event is part of size bucket 1 and therefore is weighted with a factor 7; whereas a € 10 million plus 1 € loss event is part of size bucket 1 and 2 and therefore is weighted with a factor 7+7=14. An increase of 1 € (+0.00001 %) would cause a jump of the loss component by € 7 million (+100%).

We strongly suggest to consider an alternative methodology. The approach already used in the BI component would avoid these cliff effects, i.e. the multiplier should only be applied to the amount exceeding the threshold. In the example above this would be the 1 € and the loss component would increase from € 7 million to € 7 million plus € 1.40 (+0.00002%).

3. Additional size bucket for extreme events

In our perspective, the proposed size buckets do not capture high severity / low frequency risks. Therefore we suggest the following size buckets:

- losses exceeding the minimum threshold (€ 10.000 proposed)
- losses above € 10 million
- losses above € 100 million
- losses above € 1.000 million

The factors should be recalibrated based on QIS data and the proposed methodology in No. 2 accordingly.

4. Clear guidance for the definition of loss

The definition of "loss" within the Loss Component should be very precise to achieve full comparability. This should also be considered when drafting the QIS on which results the calibration shall be performed.

We noticed that banks interpret the methodology differing, especially regarding the deduction of direct recoveries. The points to clarify are: (i) direct recoveries, (ii) near misses, (iii) timing losses (except for any losses resulting from timing losses which shall of course be included), (iv) rapid recoveries, and (v) treatment of market risk related losses. COMMERZBANK suggests to use losses net of direct recoveries, to exclude near misses, timing losses, and rapid recoveries but to include market risk related losses, as it is the definition we have in place with the current approach.

Conclusion

COMMERZBANK welcomes the fact that the SMA is much more comparable and simpler than the current approaches to operational risk capital calculation. The adjustments mentioned above would lead to a further improvement of the methodology and would reflect the bank specific OpRisk profile more adequately.

We hope that the comments above have been constructive and will be considered in the final BCBS methodology.

— Yours sincerely,
Commerzbank AG

Jens P. Falke
Head of Operational Risk & Internal Control System

—

—