CREDIT SUISSE

BCBS Consultation

Standardised Measurement Approach for operational risk

(Issued for comment by 3 June)

Official Comments of Credit Suisse AG

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Index

List of abbreviations

Abbreviation	Explanation
AMA	Advanced Measurement Approach
ASA	Alternative Standardised Approach
BI	Business Indicator
BIA	Basic Indicator Approach
CS	Credit Suisse
SMA	Standardised Measurement Approach
TSA	The Standardised Approach

1.0 **Executive Summary**

Credit Suisse (CS) has had approval to use an internal model to calculate pillar 1 capital since 2007 and is therefore one of the longest Advanced Measurement Approach (AMA) accredited banks globally. During the years prior to obtaining approval and in the intervening period Credit Suisse has invested heavily to develop and maintain a risk sensitive measure that brings together both the quantitative and qualitative components of our Operational Risk Management Framework. The desire to obtain and develop AMA status has been a significant consideration in the ongoing development of the Framework. Our internal capital model has been a useful tool that has helped bind the qualitative aspects of Operational Risk management together with the right incentives to manage the risk. We would therefore argue that we have derived significant benefits from having such an approach and that there is value in the benefits achieved for the bank as a result of AMA.

We understand that from a supervisory perspective the AMA approach presented certain challenges, as there was considerable variation in the methodologies developed by the banks which hindered the comparability of capital outputs. We therefore appreciate the Committee's desire to develop and introduce a revised approach that resolves some of the inherent issues associated with the Basic Indicator Approach (BIA), The Standarised Approach (TSA) and AMA, and introduces a more standardized methodology to allow for increased comparability across various banks and jurisdictions.

While the initial premise is intuitive and reasonable we have unfortunately concluded that the proposals presented in the recent Standardised Measurement Approach (SMA) consultation paper have not achieved the appropriate balance between risk sensitivity, simplicity and comparability. We are particularly concerned by the lack of transparency around the calibration of the SMA methodology. The current proposal is a point-in-time estimate which will soon have to be revised and therefore lead to further uncertainty with respect to Operational Risk capital levels, not only for CS but for the industry as a whole. We are further disappointed that the proposal seems to be disconnected from the rest of the Operational Risk management framework and does not provide any connection between risk management and risk capital.

We would support the use of an appropriately calibrated and revised SMA as a benchmark for internal models and note that at the end of 2014 the committee's direction of travel was the development of a standardized approach that could be used as a benchmark for internal models. We are disappointed that the committee has not chosen to pursue that approach.

Our main concerns over the proposals contained in the consultation document are:

1. Not forward looking with no link to risk management – By using only losses the SMA is solely backward looking, substantially reducing its relevance for day to day operational risk management.

   A forward looking measure of operational risk capital would provide a better incentive to banks to improve operational risk management and internal controls. For example, the capital impact of scenarios could be mitigated by improved controls. Removing the link between operational risk capital (and therefore risk weighted assets) and internal controls could result in some firms diverting resources from operational risk to other areas, resulting in an increase in operational risk in the banking system.

2. Calibration – For a number of banks the calibration of the SMA will result in significant increases in the level of pillar 1 capital. The calibration of buckets 3 (19%), 4 (23%) and 5 (29%) is particularly penal. Given the amount of increase, particularly for European banks as demonstrated by ORX, we feel that the calibration is set too high and should be significantly reduced. We are also concerned that capital volatility as a result of the loss data component will require the recalibration of the SMA in the next few years.

3. Recognition of insurance – We believe there are multiple benefits from the recognition of insurance within the operational risk capital framework from a risk management as well as a risk capital perspective. Recent years have seen considerable efforts in both the banking and insurance sectors to develop improved insurance products to minimise the potential capital impact of operational risk losses. More specifically Credit Suisse has recently developed an approach that allows for mitigation of operational risk via a transfer to the insurance industry and the capital markets. Indeed, the committee's paper

"Recognising the risk-mitigating impact of insurance in operational risk modelling" of June 2010 has played an important role in this area. We are disappointed that the proposals do not recognise the risk mitigating impact of insurance in the measurement of operational risk for regulatory minimum capital requirements.

4. Incomplete information – Unfortunately the consultative document lacks a number of key pieces of information that would have enabled us to contribute further to the consultation:

    a. Supporting evidence – We are unable to determine if the necessary quantitative evidence and evaluations have been completed to support the methodology and calibration proposed. Industry has considerable quant resource with many years of experience and these resources could have contributed to, and validated, the underlying calculations.

    b. The role of internal models – In many banks the role of internal models in calculating pillar 2 capital and undertaking stress testing far outweighs their role in determining pillar 1 capital. However, the consultation document is silent on this matter resulting in considerable uncertainty that can only damage internal modelling of operational risk.

    c. The three questions – The questions posed in the consultation document are extremely limited in scope and only cover: (i) the revised structure and definition of BI (paragraphs 11-24); (ii) the inclusion of loss data and the methodology (paragraphs 29-36), and (iii) annex 2. Given the resources invested by many banks in obtaining approval to use AMA and evolve the methodology over time we are disappointed that the document does not include a specific question on the withdrawal of internal models. The application of SMA within a group also warrants individual consideration. We are sure that many respondents will address a range of issues that do not strictly fall under the three questions and we trust that the Committee will take full account of all issues raised in the responses received.

We have identified a number of proposals that would greatly enhance the SMA and significantly reduce the problems banks will face in implementing the new measure. While the full range of proposals appears in section 5 we would particularly like to draw your attention to the following (the proposal references below align to the proposals contained in section 5):

- The BI and Loss Component :
    - The proposed BI bucket weightings be revised to reduce the resultant capital impact (Proposal 2);
    - The loss component 'buckets' should be progressive and relative to the size of the institution (Proposal 13);
- Insurance :
    - Insurance is included as a reflection of its risk mitigating properties as an ex-post capital adjustment with banks able, with the prior approval of the regulator, to reduce their operational risk capital to reflect the risk mitigating impact of insurance (Proposal 10);
- Risk Management :
    - Banks be given the opportunity to:
        - Reduce losses by a specified percentage where demonstrable mitigative actions have been taken;
        - Apply lower weights to losses that are attributable to discontinued activities (Proposal 8);
    - Supervisors be given the ability to increase or decrease pillar 1 operational risk capital within prescribed minimum and maximum multiples to reflect their assessment of a bank's operational risk management framework and the bank's compliance with the Committee's 'Principles for the Sound Management of Operational Risk' published in 2011 (Proposal 18);

- Other issues:
    - Non-euro zone regulators should fix for a given period the euro exchange rates to be used by the firms they regulate (Proposal 5).

We have participated in the submissions from the Operational Riskdata Exchange Association (ORX), the Institute of International Finance (IIF) and the British Bankers Association (BBA) and support their content.

2.0 Consultation Document General Areas of Concern

The publication of the consultative document proposes significant changes to the qualitative and quantitative requirements placed on banks. It is therefore disappointing to note that the document includes no supporting evidence for the changes it suggests. When the committee published its 2014 consultative document 'Revisions to the Simpler Approaches' the document included reasoned arguments and supporting evidence. Given the operational risk knowledge and experience available in banks, other financial institutions and various other bodies it is disappointing that industry has not been provided with the information necessary to contribute fully to the assessment and analysis or understand the theoretical justifications for the formula, coefficients and bucketing.

While the document emphasizes the importance of simplicity and comparability there is little reference to improving operational risk management in banks. There is a danger that the search for simplicity and comparability will draw attention away from the need for improved operational risk management. Only through improved operational risk management can the safety and soundness of banks be strengthened. The proposals provide no incentive to improve operational risk management in the business, and indeed remove the incentives currently available to those using the internal model approach.

Operational Risk is a very diverse risk category that covers multiple risk drivers affecting everything from technological challenges to changes in banking regulations and improper business conduct. The proposed approach oversimplifies Operational Risk by attempting to reduce it to a few standard indicators, and as a result no consideration is shown for the root causes of operational risk incidents. This reduces the risk capital number to a single number, completely void of any context.

By adopting a one size fits all approach the SMA assumes that all banks operate in the same environment and regulatory regime. However there are clear differences between legal jurisdiction and regulatory regime with, for example, the level of fines and legal settlements differing significantly by jurisdiction. The only granularity is through the BI and loss component as the SMA also assumes all operational risks in banks can be grouped within one operational risk category. The document does not provide any evidence to justify the conclusion that there is no differentiation as a result of differences in business model or jurisdiction.

3.0 The Standardised Measurement Approach

The proposals in the document are effectively a simplified operational risk model with much made of the SMA incorporating "the risk sensitivity of an advanced approach by combining in a standardised fashion the use of a bank's financial statement information and its internal loss experience". The proposal as currently structured is loss sensitive rather than risk sensitive. To be risk sensitive the proposals would need to have a forward looking component, perhaps in the form of scenarios or business environment and internal control factors. While the document asserts that historical loss experience is "a relevant risk indicator of future operational risk loss exposure" we suggest that there are better tools available to the operational risk community to forecast future operational risk loss experience. The lack of any evidence to support this assertion is a key issue and we are disappointed that the committee did not feel able to share their research with banks.

We have reviewed the Finance and Economics Discussion Paper 'Predicting Operational Loss Exposure Using Past Losses' by Filippo Curti of the Federal Reserve Bank of Richmond and Marco Migues of the Federal Reserve Board which shows that "past losses are useful in predicting operational loss tail exposure'. Risk-sensitivity is

inferred in the paper which establishes statistical relationships between high quantiles of the loss distribution and past losses. However, we note that the paper is based on US bank holding companies and it may not be appropriate to apply these findings to the global banking community.

The operational risk proposals overestimate the ability of banks to calculate a comparable Business Indicator given international differences in accounting standards (US GAAP and IFRS), consolidation methods, currency conversions, inclusion of legal reserves, treatment of inflation, and allowances for insurance recoveries. Some bank's are likely to experience problems segregating the Profit and Loss on the trading book and on the banking book. These issues will all reduce comparability initially and will increase the time required for implementation.

We are concerned that as a result the proposals may not be globally valid or produce the desired outcomes. Banks in different jurisdictions appear to be disproportionately affected and there is a lack of transparency around the design of the SMA. No rationale is provided for the choice of functions or their calibration. As a consequence, more information is required relating to the specific calibration of the SMA to income and loss data from banks to enable us to contribute effectively to this part of the consultation. A clearer understanding of the level of confidence targeted by the SMA would help industry understand the calibration.

One of the benefits of the internal model approach is that – by the use of scenarios and business environment and internal control factors – the capital calculation is both forward looking and risk sensitive. The construction of the SMA means that it is exclusively backward looking. By eliminating any forward-looking elements from the capital calculation, the proposal creates a disconnect between risk management and the business and does not create any incentive to improve operational risk management.

The SMA is largely based on bank financials that are likely to decline during an economic downturn. This is counter intuitive. The Global Financial Crisis demonstrated that there is likely to be an increase in extreme operational risk losses during a downturn and a prudent simplified approach should result in operational risk capital increasing during such periods. The approach proposed could therefore reduce confidence in the safety and soundness of banks during recession and other times of stress.

An appropriately recalibrated and revised SMA would better serve as a capital benchmark rather than the sole determinant of the capital requirement. This appeared to be the direction of travel in December 2014 when the committee issued the consultative document "Capital floors: the design of a framework based on standardized approaches". This document suggested "The Committee will consider the calibration of the floor alongside its work on finalising the revised standardised approaches to credit risk, market risk and operational risk". At that time we understood that "The revised standardised approach will replace the current non-model-based approach, comprising the Basic Indicator Approach, the Standardised Approach and the Alternative Standardised Approach."

The impact of a single loss on a bank's capital is influenced by the size of the bank. The capital impact of an identical loss on 2 banks with the same loss profile will be larger for the bank with the larger BI.

The one size fits all approach fails to recognise very significant differences in the quality of bank's operational risk management frameworks. These differences could be used to justify increased flexibility in the weightings assigned to the top buckets or provide a mechanism for supervisors to adjust the capital figure.

3.1 SMA - Specific Areas of Concern

The existing simpler approaches contain a number of anomalies, including the ability to offset losses in one part of the business against the operational risk charge in another. We welcome the proposal to eliminate these anomalies and to also attempt to better capture the operational risk present in banks by eliminating netting where possible. However we have identified a number of specific concerns with regard to the SMA that we feel should be resolved before the decision is taken to implement the proposals:

- The BI is backward looking. One possible solution would be to permit banks to use BI forecasts in their calculations. This would help make the measure more risk sensitive, enable banks to reflect strategic changes and forecasts could be validated by regulators against actual performance. Such an approach is

consistent with the current practice of enabling firms that do not have sufficient income data to use forecasted gross income projections for all or part of the three year time period;

- We are concerned at the proposal to use 10 years of loss data. With BI based on a three year average and a loss component that can change dramatically as losses move out of the 10 year window the SMA will be prone to instability as losses roll out of the time window. While such an extended period could be taken to reflect the likely length of the economic cycle there is no evidence in the document to support this time horizon;

- The proposal introduces the loss component into the framework to "enhance the SMA's risk sensitivity", and provide "incentives for banks to improve operational risk management". However the use of a ten year time horizon for losses means that any benefits from improvements in risk management will effectively be neutralized for 10 years as the impact of any losses works through the loss component;

- The thresholds of the various elements of the loss component are fixed for all banks globally regardless of size. This seems to contradict the main premise of the paper that operational risk losses are proportionate to bank size. The various elements of the loss component are then subsequently multiplied by 7, 14 and 19. Intuitively this seems strange and the absence of the underlying supporting calculations makes it impossible for us to comment;

- While the underlying assumption in the consultation document is that larger banks experience large losses, the proposals repeatedly penalize large institutions by the use of progressive BI buckets, excessive BI multipliers, imposing loss multipliers, and establishing a low fixed loss thresholds. There is no justification provided for the 5 buckets making it impossible for us to comment on their appropriateness;

- A single bank will have a higher BI than if the same bank elects to divide into two separate legal entities. Nevertheless, the two underlying institutions are to all intents and purposes the same institution. We feel the operational risk capital charge should be calculated at the subsidiary (or component) level and then aggregated. Operational risk events and losses generally occur in the various components of the group, not in the consolidation process;

- The SMA is expressed in Euro's with no consideration of the impact of currency movements on the capital calculation and non-Euro banks could experience capital volatility as a result. In addition, it is possible to envisage a bank's operational risk capital charge changing as a result of the impact of movements in official interest rates on exchange rates.

4.0 Internal Model Approach

Given our long standing position as an AMA bank it is disappointing to read of the intention to remove internal models following "a review of the costs and benefits" of AMA. The decision on whether individual banks should adopt an internal model should rest with the individual banks themselves. If the issue is one of a lack of comparability, resulting from complexity, this can be resolved by using the SMA as a benchmark, it is too soon to abandon the internal model experiment.

We expect that those banks in the larger buckets will continue to be required to model operational risk for pillar 2 purposes and also for stress testing, although the document's silence on this topic is a matter of some concern. As a result the costs of modelling operational risk will remain. Given the Committee's concern that internal pillar 1 models are both complex and lack comparability we are concerned at the outlook for internal operational risk models in the absence of regulatory guidance to anchor model development. While much has been made of the disadvantages letting 'a thousand flowers bloom' we expect to see even greater diversity in internal models following the withdrawal of the internal modelling requirements for pillar 1.

Modelling flexibility has been a significant factor in contributing to the development of internal models. It is possible to identify a number of changes that could have been made that would have improved comparability and strengthened confidence in risk weighted asset calculations. For example the 99.9th percentile measurement

standard was always too ambitious and no acceptable level of precision could be attained given the amount of available data. In addition, we have observed a diversity of approach amongst national regulators that has hindered the narrowing of internal modelling practices and the emergence of best practice.

Banks using internal models are able to apply for permission to "recognise the risk mitigating impact of insurance in the measures of operational risk used for regulatory minimum capital requirements." Nevertheless, the recognition of insurance mitigation is limited to 20% of the total operational risk capital charge. By withdrawing internal models and not including a mechanism for recognising the risk mitigating impact of insurance in the SMA, banks are less likely to benefit from the creation of a link between their operational risk and insurance buying functions and may find it more difficult to obtain internal support for the use of insurance to mitigate operational risk. In addition, the benefits that arise from insurers providing a second pair of eyes that review the qualitative and quantitative components of the framework may be lost.

The decision to withdraw internal modelling has a number of potential unintended consequences, in addition to the removal of the AMA anchor for internal models, that will impact operational risk management in the future:

- It will be considerably more difficult in some banks to obtain business buy-in for the operational risk framework once the link between the capital calculation and improvements in operational risk management is broken;

- There will no longer be a forward looking component to enable banks to take account of either the business environment or changes in the control environment;

- Withdrawing internal models may be interpreted as signaling a reduction in the importance of operational risk;

- Incentives to develop risk mitigating insurance products will be impacted.

5.0 Responses to the questions raised in the consultation paper

5.1 What are the respondents' views on the revised structure and definition of BI

The proposals do much to resolve some of the inconsistencies that were a part of the BIA and TSA and considerable effort appears to have been devoted to the attempt to produce a more acceptable measure. We are pleased to see that buckets apply thereby removing the 'cliff effect' that would impact a bank moving from a lower to a higher bucket. Nevertheless:

- The Business Indicator is non additive. As a result the top of the house capital figure for a banking group will exceed the sum of the subsidiaries, which will pose significant problems when allocating capital. This is particularly concerning as capital allocation will become one – albeit in diminished form - of the only levers left to encourage business support and buy in. In addition, operational risk generally arises at a sub consolidated or a subsidiary level rather than as a result of the consolidation process. If we accept the premise that large banks have the largest operational risk losses, we cannot understand why a banking group comprising a collection of small banks would receive a larger BI multiplier than that applied to the individual banks.

  Proposal 1 : We propose that the group operational risk capital requirement should be the sum of the sub consolidated calculations.

- Industry assessments of the marginal increase in the BI component as the buckets increase show that the capital impact of these proposals will be significant for banks in buckets 3, 4 and 5. While we understand that the 'objective of these proposals is to not significantly increase overall capital requirements' we find it difficult to accept this will be the case. We are also concerned that the capital impact of these proposals will vary considerably by region with European banks particularly adversely impacted.

Proposal 2 : We propose that :

- The proposed bucket weightings be revised to reduce the resultant capital impact;
- The BI range associated with each bucket be reviewed and a mechanism developed that uses the size of the bank (perhaps by assets) to determine the range of the buckets,

- As noted earlier, the BI is backward looking. One possible solution would be to permit banks to use BI forecasts in their calculations. This would help make the measure more risk sensitive, enable banks to reflect strategic changes and forecasts could be validated by regulators against actual performance.

  Proposal 3 : We propose that banks be permitted to use BI forecasts in their calculations.

- The calculation of the BI component for fee income is complex. The calculation is dependent on the unadjusted BI (uBI) which is itself impacted by fee income. As a result it is neither intuitive, nor easy to explain and does not meet the Committee's simplicity objective.

  Proposal 4 : We propose that the formula for calculating the fee contribution be simplified.

- The proposal uses Euro's throughout, including for the loss collection threshold, the loss component calculations and BI buckets and there is no clarification on how to translate losses from a non-reporting currency into a bank's reporting currency. For banks who do not have Euro's as their reporting currency, this raises the prospect of a bank's operational risk capital requirement changing as a result of currency movements rather than a change in the operational risk profile, BI or loss history.

  Proposal 5 : We propose that non-euro zone regulators should fix for a given period the euro exchange rates to be used by the firms they regulate.

- The BI definitions do not align closely to accounting standards and this will impact comparability.

  Proposal 6 : We propose that the BI definitions align to accounting standards.

5.2 What are the 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

The inclusion of loss data marks a significant addition to the proposals contained in the October 2014 Consultative Document "Operational risk – Revisions to the simpler approaches". While we commend the decision to attempt to make the SMA more risk sensitive, we do not feel that the proposals achieve this objective. If we accept the premise that to be risk sensitive a measure should be forward looking, then the proposals fail. By using losses, SMA becomes sensitive to losses, which reflects the impact of some, but not all, of the risks that a firm faced in the past. A forward looking measure would need to capture risks in the future. The frequency of tail end losses is such that they can only truly be covered by forward looking loss estimates.

We are particularly concerned that:

- No evidence is provided to support capturing losses over a 10 year period and this proposal could prove to be a source of capital volatility. This period is excessive, particularly when considered in terms of the business cycle, and should be reduced to better reflect the relevance of the losses for operational risk management.

  Proposal 7 : We propose that the requirement to use 10 years loss data be reduced to 7 years.

- The loss calculation takes no account of mitigative actions – perhaps in the form of improved controls or automation - or divested business units.

  Proposal 8 : We propose that banks be given the opportunity to:

- Reduce losses by a specified percentage where demonstrable mitigative actions have been taken;
- Apply lower weights to losses that are attributable to discontinued activities.

- Many banks are required to forecast losses as part of the stress testing process.

  Proposal 9 : We propose that banks should be able to replace the oldest years of historic losses with loss forecasts used as part of the stress testing process.

- Banks are specifically prevented from using losses net of insurance recoveries as an input for the SMA loss data set. Insurance is a legitimate risk mitigation technique and should be recognised in the loss data set. We find it difficult to understand the argument that losses are a predictor of future losses if historic losses exclude insurance recoveries. Concerns over the time taken to receive insurance payouts could be resolved by capping the period within which the insurance recovery can take place.

  The proposal fails to recognize the impact that insurance and other risk mitigants have on a bank's future losses. Mechanisms are currently in place to cover the treatment of insurance in the AMA operational risk capital calculation. We are aware that an approach for adjusting operational risk capital to reflect the mitigating impact of insurance is being developed for consideration by the Committee and we recommend that the Committee formally consider these proposals.

  Proposal 10 : We propose that insurance is included as a reflection of its risk mitigating properties as an ex-post capital adjustment with banks able, with the prior approval of the regulator, to reduce their operational risk capital to reflect the risk mitigating impact of insurance.

- The BI component 'Other operating expenses' includes losses incurred as a consequence of operational risk loss events (e.g. fines, penalties, settlements, replacement cost of damaged assets) which have not been provisioned/reserved for in previous years'. We are not convinced that capturing the same loss in operating expenses and in the loss component means that the impact of this double counting is neutral.

  Proposal 11 : We propose that 'losses incurred as a consequence of operational risk loss events (e.g. fines, penalties, settlements, replacement cost of damaged assets) which have not been provisioned/reserved for in previous years' should not be included in the BI.

- The loss component multiplier lacks transparency and is misunderstood by some parties. The loss amount should be in buckets so that the component below €10mn should be multiplied by 7, the component between €10mn and €100mn should be multiplied by 14 and losses above €100mn should be multiplied by 19. In addition the loss component is skewed by large losses which dominate the calculation.

  Proposal 12 : We propose that the elements in the loss component losses be bucketed to make the treatment and consequences of losses clearer and the loss bucket multipliers be reduced.

- The ranges of the loss buckets should be increased. The maximum €100mn loss is applied to all banks, irrespective of their size. For large complex institutions this threshold is too small while for small banks it is too large to be meaningful.

  Proposal 13 : We propose that the loss component 'buckets' should be progressive and relative to the size of the institution.

- The BCBS definition of operational risk excludes strategic and reputational risk. However the consultation document states that "a bank's internal loss data must be comprehensive and capture all material activities and exposures from all appropriate subsystems and geographic locations". This could be interpreted to include losses arising from strategic and reputational risk.

  Proposal 14 : We propose that the list of items excluded from the gross loss computation of the SMA loss data set (in paragraph 44) should include strategic and reputational risk losses.

- The treatment of grouped losses that occur in a different reporting year is not clear.

  Proposal 15 : We propose that the Group loss proposals be amended to read 'Losses experienced during a given year caused by a common operational risk event or by related operational risk events must be grouped and entered into the SMA loss dataset as a single loss for that year'.

- Losses impact operational risk capital as a result of the internal loss multiplier. However the benefits of having a loss component that is smaller than the BI are not equivalent to the impact when the loss component exceeds the BI by an equivalent amount.

  Proposal 16 : We propose that the size of the impact of having a loss component a given percentage below the BI should be the same as having a loss component that is the same percentage above the BI.

5.3 What are the respondents' views on this example of an alternative method to enhance the stability of the SMA methodology? Are there other alternatives that the Committee should consider?

- **Proposal 17 :** We welcome the proposal to set minimum and maximum multiples for the BI component to decrease the variability of capital across banks and provide greater certainty about future capital outcomes.

- **Proposal 18 :** We also propose that supervisors be given the ability to increase or decrease pillar 1 operational risk capital within prescribed minimum and maximum multiples to reflect their assessment of a bank's operational risk management framework and the bank's compliance with the Committee's 'Principles for the Sound Management of Operational Risk' published in 2011. This would go some way to making the SMA more sensitive to the quality of a bank's operational risk framework and encourage banks to enhance their management of operational risk.