Q1. Are there any other weaknesses in the existing set of simple approaches that should be addressed by the Committee?

Suggestions:

Apart from current set of deficiencies as duly recognized by committee, I would like to point out the following.

Indicators used in simple approach corresponds only to scale of operational risks if they were to occur. No indicator or coefficient used to factor in how prone or susceptible organizations are to operational risks.

Q2. Does a single standardised approach strike an appropriate balance across the Committee's objectives of simplicity, comparability and risk sensitivity?

Suggestions:

Well-meaning objective as long as it correctly reflects idiosyncratic differences between operational risks of different organizations. Oversimplification and deceptive indexes can be counterproductive as it may come relive organization from required due diligence by various stakeholders.

Q3. Are there any further improvements to the BI that should be considered by the Committee?

Suggestions:

Indicators which help also capture proneness of an organization to operational risk. Organization are more prone to operational risk if controls are slackened for some reason or it is inherently difficult to manage operational risk.

Controls tend to be slack during:

1. Overriding growth objective.

2. Cut throat competition

3. Deteriorating performance

Inherent operational risks are high if the organizations have high operational complexities.

Q4. What additional work should the Committee perform to assess the appropriateness of operational risk capital levels?

Suggestions:

Indicators for capturing how prone a bank is to Operational Risk:

1. Growth rates

2. Anomalous Performance

3. Complexity Indicator as employed by FSB for rating G-SIFIs

4. Competitive Environment Indicator

4. Supervisor Ratings, If any.

Q5. Are there any other considerations that should be taken into account when establishing the size-based buckets and coefficients? How many BI buckets would be practical for implementation while adequately capturing differences in operational risk profiles?

Suggestions:

Based on exiting regulatory practices and changes in operation risk profile of banks due to gamut of the activities undertaken by them, following ranges can be suggested

1. Under 1 Billion dollar

2. 1 -10 billion dollar

3. 10-25 billion dollar

4. 25- 50 billion dollar

5. 50-100 billion dollar

6. 100-250 billion dollar

7. 250- 500 billion dollar

8. 500- 1000 billion dollar

9. Greater than 1 trillion dollar

Q6. Are there any other considerations that should be taken into account when replacing business lines with size-based buckets?

Suggestions:

1. Relative weightages should be estimated for interest component, fee component, trading P&L component and banking P& L component

Q7. Could there be any implementation challenges in the proposed layered approach?

Suggestions:

It appears quite logical given the uses of discreet coefficients.

Q8. Do the issues of high interest margin and highly fee specialised businesses in some jurisdictions need special attention by the Committee? What could be other approaches to addressing these issues?

Suggestions:

1. Normalizing interest income using interest margin should be explored in general rather than subjecting such normalization to Floors and Caps. Interest income should be made agnostic to interest margin through such generic normalization.

2. Relative weightages should be applied to interest component, fee component, trading P&L component and banking P& L component.

3. Coefficients based on Complexity indicators should also be explored.

Q9. What would be the most effective approach to promoting rigorous operational risk management at banks, particularly large banks?

Suggestions:

1. Closed loop feedback mechanism- outcome is used to validate the efficiency and effectiveness of concerned ORM activities. ORM frameworks need to quickly evolve into Intelligent ORM Systems having self-learning attributes.

2. Mandatory failure analysis report to supervisors wherever the cumulative losses over a prescribed period from any particular incident type exceeds specified thresholds in terms of ORM capital provided for the said period.