FIRSTRAND

12 December 2014

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Dear Sir

COMMENTS ON "OPERATIONAL RISK – REVISIONS TO THE SIMPLER APPROACHES" CONSULTATIVE DOCUMENT

The Basel Committee on Banking Supervision (BCBS) published the "Operational Risk - Revisions to the simpler approaches" document (BCBS 291) on 6 October 2014, and invited comments to be submitted before 6 January 2015. This letter provides the comments of FirstRand Limited, one of South Africa's major banks. Comments on individual paragraphs in the document are provided.

Comments on individual paragraphs

This section of the letter provides comments on specific paragraphs of BCBS 291. In each instance, reference will be made to the relevant paragraph and page number of the document.

<u>Paragraph 5, page 6</u>
In this paragraph it is stated that results from QIS 2014 will be used to validate and finalise the proposals related to the revised standardised approach (SA). It is proposed that QIS 2014 should not only be used for this purpose, but also to rerun the OpCar model to recalibrate the SA (including buckets and regulatory coefficients), if required. QIS 2014

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data covers a longer time period and data should be more accurate and complete than data provided for QIS 2010.

Paragraph 9, page 7

It is proposed that more clarity and guidance are provided regarding the proportional implementation of the Principles for the Sound Management of Operational Risk (PSMOR or "Principles") by banks based on size, complexity, and the nature of activities. The level of application of the principles at banks with a certain size or complexity will have to be defined by BCBS or local regulators to ensure consistent implementation of this requirement.

Paragraph 13, page 8

It is recommended that the absolute value of each item of the "Services component" be used as part of the Business Indicator (BI) calculation. This will eliminate the risk of netting (deduction) of items due to certain accounting practices (for example in the rare instance where "Fee income" may be negative for a particular year).

Paragraph 25, page 10

This paragraph states that internal loss experience was considered appropriate as the sole basis for the calibration of the revised SA. This may lead to OpCar results, and SA calibrations, that are not entirely applicable to banks that use other risk measures (like scenarios) as inputs into their AMA models. It may further reduce the comparability of banks' AMA calculation results, should regulators decide to use the OpCar model for benchmarking. As the OpCar model only uses losses as inputs, the capital results of banks with multiple risk measure inputs may not be directly comparable to OpCar outputs.

Paragraphs 30 and 31, page 11

It is not clear whether the current challenges and problems with TSA can be attributed to gross income, beta factors or business lines. The definition and use of gross income may be one of the main flaws of TSA, and not necessarily business lines. The undesired outcome of TSA calculations can be directly related to gross income and beta factors, and with a more appropriate exposure indicator and regulatory coefficients, business lines may still be relevant.

Paragraph 32, page 12

It is stated that the current definition of the business lines within the framework seems no longer suitable for many banks. The impact of this statement and approach on AMA banks should be considered, as many AMA banks use business lines as part of their operational risk categories (ORC), regulatory reporting and various other reports. If business lines are deemed inappropriate, it may have a significant impact on AMA banks' current risk measurement and reporting frameworks.

Paragraph 48, page 16

It is stated that all internationally active banks should implement policies, procedures and practices to manage operational risk commensurate with their size, complexity, activities and risk exposure. The level and standards of policies and procedures that are required at banks with a certain size or complexity will have to be defined by BCBS or local regulators to ensure consistent implementation of this requirement. The requirement of TSA banks to evolve towards qualitative AMA standards should also be defined explicitly to state which requirements should be complied with at certain levels of risk exposure. Also refer to FirstRand's comments on paragraph 9, page 7.

Paragraph 49, page 16

In this paragraph it is stated that SA will not be accompanied by any explicit operational risk management standards. This seems contradictory to paragraphs 9 and 48. If, however, there is a requirement to implement the principles as set out in "Principles for the Sound Management of Operational Risk", the level of implementation and compliance required for banks of different sizes and risk exposures should be explicitly defined. Also refer to FirstRand's comments on paragraphs 9 and 48.

Paragraph 50, page 16

Please refer to FirstRand's comments on paragraphs 9, 48 and 49. The expected level of implementation and compliance with "Principles for the Sound Management of Operational Risk" should be clearly defined for banks of different sizes and risk exposures. This will ensure consistent implementation of the principles by banks of similar size, risk exposures and complexity. This can be done either by BCBS or local regulators.

Annex 1, page 17

Loss events are included as part of other operating expenses in the “Services component” of BI calculations. It is important that the scope of loss events that should be reported is clearly defined, and that inclusions and exclusions are listed (for example whether or not to include uncollected revenue, timing losses, etc.). It is further proposed that operational risk events be sourced from banks’ operational risk management systems and not from the income statement, as not all operational losses may be reflected in the income statement. This may provide a more complete and accurate reflection of events included in the “Services component” of BI calculations.

Annex 4, page 45

It is recommended that Annex 4 be replaced with BCBS 195 and / or 292 (Principles for the Sound Management of Operational Risk). Currently Annex 4 is only an extract from BCBS 195 / 192, and references to the full document may be more appropriate.

Annex 4(B)(6) states that a bank’s risk management framework should include mapping and reporting of gross income and loss experience by business line or activity. This is in contradiction of findings and recommendations made in paragraphs 30, 31 and 32, where it is stated that the use of business lines may no longer be appropriate.

Please contact Flippie Snyman (flippie.snyman@firstrand.co.za) or Shresti Bijou (shresti.bijou@firstrand.co.za) should you require any additional information on the above mentioned matter.

Yours sincerely,

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