

**Consultative Document (CD) on Standardised Measurement Approach (SMA)  
For Operational Risk**

IBA's Comments

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| 1 | Views on the revised structure and definition of the BI                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|   | <ul style="list-style-type: none"> <li>- The proposed approach is closer to Basic Indicator Approach under earlier schema. As the capital requirement would increase progressively with the level of Business Indicator (BI), its important how the limits are translated into other currencies. If done at market exchange rates these could fluctuate over time. The BI bucket limits may be defined in terms of US \$ instead of Euro.</li> <li>- The National regulators need to be given discretion to modify these limits considering the structure of bank market.</li> <li>- The methodology is calculated at a bank level and hence allocation of capital to individual business line is difficult. Therefore it is proposed that banks could be encouraged to do these calculations at business line level through aggregate capital would depend at enterprise level which is a sum total of all business line</li> <li>- The management tools available under Business Environment &amp; Internal Control Factors (BEICF) i.e. Risk Control Self-Assessment (RCSA), Key Risk Indicators are important to monitor and control OR. Continued use of these tools has to be incentivized by allowing banks to use outcome of these tools in OR Management.</li> <li>- The cap for NIM for computation of capital for OR may be fixed at lower level say 2.5% as given the low NIM levels currently prevalent.</li> <li>- Internal loss based component could also be included in the capital calculation for banks in first BI range (of 0 to 1 Bn €) . Otherwise, Bucket 1 will continue to be akin to Basic Indicator Approach. Continuing with such provision will not prompt Banks to put in place mechanism for collection of internal loss data as being proposed under SMA. BCBS may consider providing lead time of 3/5 years to those Banks falling in Bucket 1 to start collecting internal loss data. To incentivise banks to gather such data, non-availability of internal loss or infirmities/ deficiencies may attract penalties after the lead time.</li> </ul> |
| 2 | Views on the inclusion of loss data into the SMA? Are there any modifications that the Committee should consider that would improve the methodology?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|   | <ul style="list-style-type: none"> <li>- The concerned jurisdiction should have flexibility to determine various thresholds</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

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|   | <p>and multipliers based on idiosyncratic feature of the jurisdiction</p> <ul style="list-style-type: none"> <li>- Application of same BI coefficient (multiplier at different BI buckets) across all jurisdictions assumes the impact of operational losses on banking companies is similar across different jurisdictions with specific BI size which may not be true for jurisdictions with banks of smaller sizes. BI coefficients shall be supported by studies specific to individual jurisdictions.</li> <li>- SMA document specifies to include near miss events if these are material for calculation of the Loss Component which is a part of the Internal Loss Multiplier. For more clarity and comparability across banks it would be desirable to define a criteria of 'materiality' in SMA methodology itself.</li> <li>- Scenario analysis being forward-looking enables firms to try to identify and understand the impact of high severity events and engages senior management in the results and also initiates proactive measures. SMA / local regulators could define standard stress scenarios which all banks could use these in scenario building. These could be part of Pillar to risk assessment.</li> <li>- The Document mentions loss data to be collected from business segments in which a bank is currently operating. In this regard a clarification as to whether loss events from divested / closed business segments can be excluded would be very useful.</li> <li>- Insurance is major source of mitigation of risk factors for the banks and insurance has been procured by paying large amount of premium. The recovery from the insurance policy and other recoveries need to be allowed to adjust against the gross amount of loss while calculating Loss Multiplier.</li> </ul> |
| 3 | <p>Views on the example of an alternative method to enhance the stability of the SMA methodology? Are there other alternatives that the Committee should consider?</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|   | <ul style="list-style-type: none"> <li>- In order to incentivize banks with better risk management practices and lower loss experiences, additional floors or additional incentive structure depending on the loss experience on the basis of overall amount of loss or the number of loss brackets the loss experience is, may be considered.</li> </ul> <p>For example, a bank with low loss experience and remaining in the first bracket of losses may be incentivized with lower floors and banks which are moving up in the 2nd and third brackets may be penalized with a higher floor.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |