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



Email: baselcommittee@bis.org

Dear Mr Adachi,

Re: Standardised Measurement Approach for operational risk

Macquarie Group welcomes the opportunity to comment on the Basel Committee on Banking Supervision (BCBS) proposed Standardised Measurement Approach (SMA) for operational risk.

We appreciate the extensive work and commitment by regulators to develop a simpler, more comparable, and risk sensitive method for determining operational risk capital requirements.

Overall, Macquarie supports the comments made in the consultation response submitted by the Australian Bankers' Association (ABA). The ABA response addresses the specific questions raised in the consultative document and provides additional feedback for consideration.

This submission by Macquarie focuses on issues that are of particular importance to businesses with significant income derived from financial and operating leases. As a result, the only question we are providing feedback on is Question 1. Our position on other questions in the consultation has been captured in the ABA submission.

Q1: What are respondents' views on the revised structure and definition of the Business Indicator (BI)?

Macquarie welcomes the BCBS's proposal to address the *"inconsistent treatment of leasing compared with credit"*. In particular, we support the proposal to net all financial and operating lease income and expenses and to include them in the interest component.

We also welcome the BCBS's proposal to address the *"overcapitalisation of banks with high net interest margins"*. We appreciate the efforts made by the BCBS to align SMA capital requirements more closely with the operational risks of these businesses and away from the credit risk based decisions that may result in high interest margins.

We would encourage the BCBS to retain both the adjustments to lease income and expenses and the normalisation of interest income and expenses in the final SMA standards.

Macquarie notes that, while the BCBS has brought the treatment of lease businesses in line with that of lending businesses in terms of netting income and expenses, the SMA only applies linear normalisation to the lending business. Given the similarity in operational risks between leasing and lending businesses, Macquarie proposes that leasing income and expenses should not be excluded from the linear normalisation mechanism applied to interest income and expenses. The arguments made for not penalising business models with high net interest margins should apply equally to business models that receive a high return on leased assets.

The argument for equal treatment of leasing and lending businesses in the SMA is not new and has already been incorporated into decisions made by the BCBS as demonstrated by the following statement taken from the *Standardised Measurement Approach for operational risk* consultation document:

"Inconsistent treatment of leasing compared with credit: business models based on credit finance, financial leasing or operating leasing employ similar administrative and management processes, and thus face similar operational risks. Therefore, the contributions to the BI of the income and expenses from financial and operating leases should be consistent with the contribution of credit finance, irrespective of their accounting treatment."

Given the equivalence of operational risks in leasing and lending businesses, Macquarie proposes that the contribution of lease income and lease expenses should be capped at the same rate as interest income and interest expenses, 3.5% of leased assets.

We thank you for taking our comments into consideration, and we look forward to future discussions on operational risk.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Stephen Allen', written in a cursive style.

Stephen Allen
Chief Risk Officer