

Response to consultative document: Standardised Measurement Approach (SMA) for operational risk

### **1. Rationality of the LC<sup>1</sup> calculation only based on historical losses**

Based on the concept that regulatory capital is required to absorb bank's future losses, historical losses generally not having positive correlations with near future occurrence such as natural disasters should not be inputs of capital calculation. In practice, it would be the same for internal/external fraud as preventive measures are implemented in most cases when such risks have been crystalized.

### **2. Rationality of the ILM<sup>2</sup> calculation for keeping a level-playing-field**

Even if the SMA would be taxation-like methodology, the following points need be considered to keep a level-playing-field.

- The denominator in the ILM is the BIC<sup>3</sup>. It means losses not having positive correlations with the BIC work more unfavorable for the required capital, compared to those having them. The examples are cyber-attacks and natural disasters.
- The ILM has a logarithmic function and is nonlinear. It means increment of the ILM compared to that of LC is not the same for all banks.

### **3. Clarity of the meaning of some criteria on internal loss data**

Further clarification on the following criteria would be useful so that a bank cannot arbitrarily treat loss data to reduce regulatory capital required.

- Criteria for deciding the circumstances, types of data and methodology for grouping data of losses caused by a common operational risk event or by related operational risk events over time. [Paragraph 45]
- Criteria for judging whether an operational risk loss relates to credit risk. [Paragraph 43]

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<sup>1</sup> Loss Component

<sup>2</sup> Internal Loss Multiplier

<sup>3</sup> Business Indicator Component