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To: Basel Committee on Banking Supervision

Comments on Standardised Measurement Approach (SMA) for operational risk Consultative Document

UOB values the opportunity to respond to the Basel Committee on Banking Supervision's (BCBS) proposed Standardised Measurement Approach.

This response offers some practical solutions to further refine the SMA proposed. In our response, we would also like to take this opportunity to provide feedback and seek clarification on certain aspects of the Consultative Document.

Feedback

Internal Loss Multiplier

This section proposes a refinement to encourage and recognize the efforts put in by banks to improve their internal controls and risk management practices. The proposed Loss Component treats all operational risk losses in the past 10 years equally. However, operational risk losses that occurred in the distant past may not be as good a reflection of the current banking environment compared to more recent losses, due to ongoing changes in banking activities, operations, risk management processes, external financial and regulatory environment. An enhancement could be to take a weighted approach by applying a reducing factor (e.g. linear decay) to each year's operational losses.

E.g. An illustration of the effect of linear decay factor on the weighted average total annual loss

S/n	Year	Decay factor (a)	Loss $m (b)	Total annual loss $m (a) * (b)
1	2006	0.1	6	0.6
2	2007	0.2	3	0.6
3	2008	0.3	8	2.4
4	2009	0.4	49	19.6
5	2010	0.5	2	1
6	2011	0.6	7	4.2
7	2012	0.7	15	10.5
8	2013	0.8	3	2.4
9	2014	0.9	9	8.1
10	2015	1	4	4

Total Annual Loss $m (10 Years)	53.4
Weighted Average Total Annual Loss $m	5.34

Clarification Sought

We would also like to seek the following clarification:

1. Clarification on 'Average'

The Loss Component distinguishes between loss events above €10 million and €100 million from the smaller loss events. For the larger loss events (i.e. > €10m or > €100m), is the Average Total Annual Loss taken over 10 years, or only taken over the number of years where such loss events occurred (e.g. 2 years, if large losses only occurred in 2 of the past 10 years)?

We appreciate the Committee's consideration of our feedback and look forward to the Committee's response to the clarification sought.

Yours faithfully

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Head, Group Operational Risk