Basel Committee on Banking Supervision

OPE

Calculation of RWA for operational risk

OPE20

Basic indicator approach

Version effective as of
15 Dec 2019

First version in the format of the consolidated framework.

BANK FOR INTERNATIONAL SETTLEMENTS

20.1 Banks using the Basic Indicator Approach must hold capital for operational risk equal to the average over the previous three years of a fixed percentage (denoted alpha) of positive annual gross income. Figures for any year in which annual gross income is negative or zero should be excluded from both the numerator and denominator when calculating the average. [1]

Footnotes

[1] *If negative gross income distorts a bank's Pillar 1 capital charge, supervisors will consider appropriate supervisory action under Pillar 2.*

20.2 The capital requirement under the Basic Indicator Approach, $K_{BIA,}$ may be expressed as follows, where GI is annual gross income, where positive, over the previous three years; n is the number of the previous three years for which gross income is positive; and α is 15% (set by the Committee, relating the industry-wide level of required capital to the industry-wide level of the indicator).

$$K_{BIA} = \frac{\sum \left(GI_{1\ldots n} \times \alpha \right)}{n}$$

20.3 Gross income is defined as net interest income plus net non-interest income.[2] It is intended that this measure should:

(1) be gross of any provisions (eg for unpaid interest);

(2) be gross of operating expenses, including fees paid to outsourcing service providers;[3]

(3) exclude realised profits / losses from the sale of securities in the banking book;[4] and

(4) exclude extraordinary or irregular items as well as income derived from insurance.

Footnotes

[2] *As defined by national supervisors and/or national accounting standards.*

[3] *In contrast to fees paid for services that are outsourced, fees received by banks that provide outsourcing services shall be included in the definition of gross income.*

[4] *Realised profits/losses from securities classified as "held to maturity" and "available for sale", which typically constitute items of the banking book (eg under certain accounting standards), are also excluded from the definition of gross income.*

20.4 As a point of entry for capital calculation, no specific criteria for use of the Basic Indicator Approach are set out in this Framework. Nevertheless, banks using this approach are encouraged to comply with the Committee's guidance on Principles for the Sound Management of Operational Risk, June 2011.

20.5 The risk-weighted assets for operational risk under the Basic Indicator Approach are determined by multiplying the capital requirements calculated as set out in this chapter by 12.5.