

28/07/2003

To: The Basel Committee Secretariat

From : Carmela Hermesh, Bank Leumi,  
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**The New Basel Capital Accord (29.4.03) – some comments  
concerning operational risk**

Enclosed are some comments regarding the above paper, in regards to operational risk.

Para 628. – As many approaches to the measuring of operational risk continue to evolve rapidly, we would like to suggest that the Committee will initiate a Methodological Impact Study, by which we mean, that you would establish a special reserve, to which people developing such models can contribute papers describing their model. These papers will have a special place on your web site, making them accessible to every bank who wants to try a variety of models on its own database. Some banks might transfer comments about the applicability of the models in their own organization, others might transfer some of their results concerning some of the models. A data reserve like this might enable the methodologists to achieve a Meta Analysis on some of the models, and thus better understand their potentials and limitations. This might also help establish backtesting on the models. We believe, that such an initiative might highly promote the development of the methodology of measuring operational risks.

Para 631,632 – As you mentioned in 631, for some risks some adjustments will be needed concerning historical loss data. Therefore we recommend in Para 632, to add to the sentence "... must be based on a minimum five-year observation period of internal loss data", the following: "unless the bank might prove to the regulator, that in that period a significant change has occurred in the organization, concerning business lines, products, technologies and so on, for which the bank asks for a shorter period of time to be accepted and approved by the regulator".

Para 633 – concerning operational risk losses that are related to credit risk – can we understand from your recommendation that such losses will not be subject to the operational risk capital charge, that you also recommend that the responsibility for managing such risks (e.g. collateral management failure) is under the credit risk managers and not under the operational risk managers?

Best regards,

Carmela Hermesh