In May 2001, the Basel Committee on Banking Supervision launched a survey of banks’ operational risk data. In a repeat of this exercise, the Committee is now seeking to collect detailed data from the banking sector on operational risk for the most recent financial year (2001). The data collection exercise will include information on banks’ operational risk losses and various ‘exposure indicators’, and will enable the Committee to further refine the calibration of the operational risk charge proposed for the New Basel Accord.

The Committee is providing banks with spreadsheets outlining the operational risk information requested as well as detailed instructions to assist banks in completing the survey. Banks are asked to complete and return the survey, via national supervisors, by 31 August 2002.1

Please note that all data received will be treated with complete confidentiality. The Committee intends to provide feedback to the industry on the results of the survey. However, this will be done on a basis that avoids any disclosure of individual bank data.

Background

The Committee’s paper Working Paper on the Regulatory Treatment of Operational Risk published in September 2001 provides an overview of the proposed framework for the regulatory capital charge for operational risk.2 In the working paper, the Committee outlines proposals for the development of a capital charge to cover operational risk. In the proposals there are three approaches of increasing sophistication to assess the operational risk charge: the Basic Indicator Approach, the Standardised Approach and the Advanced Measurement Approaches (AMA).

As part of the second quantitative impact survey, the Committee conducted its first survey of operational risk data in May 2001.3 The data collected in that survey and in this current exercise will allow for the further calibration of the Basic Indicator and Standardised Approaches, and will inform the development of the AMA framework, in particular, resolving issues concerning the qualifying criteria for the AMA. The Committee envisages that these surveys will be part of an on-going data programme undertaken over the next few years to further refine the calibration of the operational risk charge.

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1 Some national supervisors may request data to be submitted to them in advance of the 31 August deadline.
3 See http://www.bis.org/bcbs/qisoprisk.htm. The results of this survey were published in the paper The Quantitative Impact Survey for Operational Risk: Overview of Individual Loss Data and Lessons Learned.
The 2002 survey

The primary purpose of this survey is to collect granular (event-by-event) operational risk loss data to help the Committee determine the appropriate form and structure of the AMA. To facilitate the collection of comparable loss data at both the granular and aggregate levels across banks, the Committee is again using its detailed framework for classifying losses. In the framework, losses are classified in terms of a matrix comprising eight standard business lines and seven loss event categories. These seven event categories are then further divided into 20 sub-categories and the Committee would like to receive data on individual loss events classified at this second level of detail if available.

The Committee is also collecting information on six “exposure indicators” such as number of employees or total assets. The exposure indicator data serve two purposes. First, they are critical to the Committee’s effort to aggregate loss data across banking institutions to arrive at an industry loss distribution. Second, the exposure indicators are necessary for banks and supervisors to relate historical loss experience to the current level of business activity. This information also enables banks and supervisors to determine separate frequency and severity distributions for the operational risk loss experience. Although indicators other than gross income are included in this survey, the Committee does not envision revisiting the use of gross income as the base for the Basic Indicator and Standardised Approaches.

The survey aims to collect data for the financial year 2001 and banks are asked to complete as much of the survey as possible on a best endeavours basis.

Changes to the previous survey

Although this survey is a repeat of an exercise carried out last year, there are a number of important changes to the scope and content of this year’s survey. These include:

- Banks are no longer asked to provide operational risk loss data by ‘effect types’,
- Banks are no longer asked to provide quarterly aggregated loss data,
- Banks are asked to provide data on expected as well as received recoveries,
- Banks are asked to indicate the internal threshold used for collecting loss data,
- Banks are asked to identify those losses arising from a ‘corporate centre’ business,
- Banks are no longer asked to provide data on the value of transactions/deals/trades, the number of transactions/deals/trades, the standard deviation of transactions/deals/trades, the number of accounts and the average balance of accounts,
- Banks are asked to provide component information on gross income,
- Simplified, structured Excel spreadsheets have been developed for completing this year’s survey. These spreadsheets include a number of tests to check the consistency of data submitted and thus reduce the need for further enquiries after data are submitted. It is therefore important that banks do not change the design or structure of the questionnaire and check the messages of these tests.

The Committee appreciates that this exercise is a burden on banks. However, it believes, that its proposals will have increased accuracy and risk sensitivity where they are based on a sound quantitative foundation. The data requested are of fundamental importance to the development of the operational risk charge and the calibration of the overall capital framework, and to the extent that more accurate and complete data are received then the need for buffers or adjustments for uncertainty is reduced.
## Operational Risk Data Collection Exercise – Annexes

### Annex 1: Example mapping of business lines

<table>
<thead>
<tr>
<th>Business Unit</th>
<th>Business lines</th>
<th>Activity Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INVESTMENT BANKING</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Finance</td>
<td>Level 1: Corporate Finance</td>
<td>Mergers and Acquisitions, Underwriting, Privatisations, Securitisation, Research, Debt (Government, High Yield) Equity, Syndications, IPO, Secondary Private Placements</td>
</tr>
<tr>
<td></td>
<td>Level 2: Municipal/Government Finance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Level 2: Merchant Banking</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Level 2: Advisory Services</td>
<td></td>
</tr>
<tr>
<td>Trading &amp; Sales</td>
<td>Level 1: Sales</td>
<td>Fixed Income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage, debt, prime brokerage</td>
</tr>
<tr>
<td></td>
<td>Level 1: Market Making</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Level 1: Proprietary Positions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Level 1: Treasury</td>
<td></td>
</tr>
<tr>
<td><strong>BANKING</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail Banking</td>
<td>Level 1: Retail Banking</td>
<td>Retail lending and deposits, banking services, trust and estates</td>
</tr>
<tr>
<td></td>
<td>Level 1: Private Banking</td>
<td>Private lending and deposits, banking services, trust and estates, investment advice</td>
</tr>
<tr>
<td></td>
<td>Level 1: Card Services</td>
<td>Merchant/Commercial/Corporate cards, private labels and retail</td>
</tr>
<tr>
<td>Commercial Banking</td>
<td>Level 1: Commercial Banking</td>
<td>Project finance, real estate, export finance, trade finance, factoring, leasing, lends, guarantees, bills of exchange</td>
</tr>
<tr>
<td>Payment and Settlement¹</td>
<td>Level 1: External Clients</td>
<td>Payments and collections, funds transfer, clearing and settlement</td>
</tr>
<tr>
<td>Agency Services</td>
<td>Level 1: Custody</td>
<td>Escrow, Depository Receipts, Securities lending (Customers) Corporate actions</td>
</tr>
<tr>
<td></td>
<td>Level 1: Corporate Agency</td>
<td>Issuer and paying agents</td>
</tr>
<tr>
<td></td>
<td>Level 1: Corporate Trust</td>
<td></td>
</tr>
<tr>
<td><strong>OTHERS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset Management</td>
<td>Level 1: Discretionary Fund Management</td>
<td>Pooled, segregated, retail, institutional, closed, open, private equity</td>
</tr>
<tr>
<td></td>
<td>Level 1: Non-Discretionary Fund Management</td>
<td>Pooled, segregated, retail, institutional, closed, open</td>
</tr>
<tr>
<td>Retail Brokerage</td>
<td>Level 1: Retail Brokerage</td>
<td>Execution and full service</td>
</tr>
</tbody>
</table>

¹ Payment and settlement losses related to a bank’s own activities would be incorporated in the loss experience of the affected business line.
Annex 2: Loss event type classification

Operational risk event: Any occurrence specified in Table 1 below, which gives rise to one or more of the loss effects set out above and explained in Table 2 below. Every individual event shall be separately reported, subject to the guidance specified below:

‘Internal fraud’: multiple dishonest/fraudulent acts committed by the same employee and categorised in the same level 2 category shall be counted as a single event.

‘External fraud’: multiple criminal acts committed by the same person/party and categorised in the same level 2 category shall be counted as a single event. A series of losses involving unidentified person/party but arising from the same method of operation shall be deemed to involve the same person/party.

‘Employment Practices and Workplace safety’ and ‘Clients, Products & Business practices’: claims, litigation and payments of restitution arising from the same cause shall be counted as a single event.

‘Damage to physical assets’: two or more natural hazards (i.e. earthquake, typhoon, hurricane, windstorm, flood etc) which occurred within 72 hours, shall be deemed as a single event except in the case where the affected areas do not coincide entirely.

‘Business disruption and system failure’: any one event or a series of event resulting from the same cause (e.g. mechanical breakdown of the same parts, error in the specific program) shall be deemed as a single event.
<table>
<thead>
<tr>
<th>Event-Type Category (Level 1)</th>
<th>Definition</th>
<th>Categories (Level 2)</th>
<th>Activity Examples (Level 3)</th>
</tr>
</thead>
</table>
| **Internal fraud** | Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party. | Unauthorised Activity | Transactions not reported (intentional)  
Trans type unauthorised (w/monetary loss)  
Mismarking of position (intentional) |
| **Theft and Fraud** | | Fraud / credit fraud / worthless deposits  
Theft / extortion / embezzlement / robbery  
Misappropriation of assets  
Malicious destruction of assets  
Forgery  
Check kiting  
Smuggling  
Account take-over / impersonation / etc.  
Tax non-compliance / evasion (wilful)  
Bribes / kickbacks  
Insider trading (not on firm’s account) |
| **External fraud** | Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party | Theft and Fraud | Theft/Robbery  
Forgery  
Check kiting |
| **Systems Security** | | Systems Security | Hacking damage  
Theft of information (w/monetary loss) |
| **Employee Relations** | Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events | Employee Relations | Compensation, benefit, termination issues  
Organised labour activity |
| **Safe Environment** | | Safe Environment | General liability (slip and fall, etc.)  
Employee health & safety rules events  
Workers compensation |
| **Diversity & Discrimination** | | Diversity & Discrimination | All discrimination types |
| **Clients, Products & Business Practices** | Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product. | Suitability, Disclosure & Fiduciary | Fiduciary breaches / guideline violations  
Suitability / disclosure issues (KYC, etc.)  
Retail consumer disclosure violations  
Breach of privacy  
Aggressive sales  
Account churning  
Misuse of confidential information  
Lender Liability |
| **Improper Business or Market Practices** | | Improper Business or Market Practices | Antitrust  
Improper trade / market practices  
Market manipulation  
Insider trading (on firm’s account)  
Unlicensed activity  
Money laundering |
| **Product Flaws** | | Product Flaws | Product defects (unauthorised, etc.)  
Model errors |
<table>
<thead>
<tr>
<th>Event-Type Category (Level 1)</th>
<th>Definition</th>
<th>Categories (Level 2)</th>
<th>Activity Examples (Level 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selection, Sponsorship &amp; Exposure</td>
<td>Failure to investigate client per guidelines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advisory Activities</td>
<td>Disputes over performance of advisory activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Damage to Physical Assets</td>
<td>Losses arising from loss or damage to physical assets from natural disaster or other events.</td>
<td>Disasters and other events</td>
<td>Natural disaster losses, Human losses from external sources (terrorism, vandalism)</td>
</tr>
<tr>
<td>Business disruption and system failures</td>
<td>Losses arising from disruption of business or system failures</td>
<td>Systems</td>
<td>Hardware, Software, Telecommunications, Utility outage / disruptions</td>
</tr>
<tr>
<td>Execution, Delivery &amp; Process Management</td>
<td>Losses from failed transaction processing or process management, from relations with trade counterparties and vendors</td>
<td>Transaction Capture, Execution &amp; Maintenance</td>
<td>Miscommunication, Data entry, maintenance or loading error, Missed deadline or responsibility, Model / system misoperation, Accounting error / entity attribution error, Other task misperformance, Delivery failure, Collateral management failure, Reference Data Maintenance</td>
</tr>
<tr>
<td>Monitoring and Reporting</td>
<td>Failed mandatory reporting obligation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer Intake and Documentation</td>
<td>Client permissions / disclaimers missing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer / Client Account Management</td>
<td>Unapproved access given to accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade Counterparties</td>
<td>Non-client counterparty misperformance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vendors &amp; Suppliers</td>
<td>Outsourcing</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Misc. non-client counterparty disputes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 2: Decision trees to determine event categorisation

1. Did the primary event adversely change the economic results of the firm and was it recognised per GAAP?
   - No: Not an event for regulator

2. Specifically, was the consequential financial impact of the event one or more of the following effects:
   - Write-down, Legal costs, Regulatory action, Restitution, Loss of recourse
   - Loss or damage to physical assets
   - Yes: 3
   - No: Page 2

3. Is the sum of the losses above the threshold amount?
   - Yes: 4
   - No: Not an event for regulator

4. Did the primary loss event result in a reduction of the revenue or an increase in the cost base which arose from a tactical or strategic business decision?
   - Yes: Business/Strategic event
   - No: Not an event for regulator
   - Page 2
Has apparent or actual intent to defraud, circumvent regulations, break the law or company policy been determined, established or alleged?

Was the unintentional act or omission inconsistent/against with employment law or health and safety laws OR a payment/settlement for personal injury?

Was there loss or damage to physical/fixed assets?

Was there a technology, telecommunication (hardware and software) disruption or utilities failure/outage or disruption?

Was there a unintentional or negligent failure to meet a professional to specific obligation to client(s), i.e., failed to act in the best interests of the client (fiduciary and suitability responsibilities), OR did clients suffer a loss as a result of nature or design of products?

Was it an intentional act or omission or a pattern of behaviour which was inconsistent/against employment laws or health and safety laws?

Was at least one member of the institution’s staff involved in the incident in box 5?

Was the customer impacted from a routine error in client documentation, account management or transaction processing?