Comments by Deutsche WertpapierService Bank AG on the Second Consultative Document “Standardised Measurement Approach for operational risk” (BCBS 355)

Dear Madam, dear Sir,

Deutsche WertpapierService Bank AG (dwpbank), the leading securities settlement service provider for Germany’s financial market, appreciates the opportunity to comment on the second consultative document indicated above. We would like to express the following concerns and statements.

**General comments**

The SMA is intended to provide a non-model based method for the estimation of operational risk capital. It should be simplistic and comparable across banks and, furthermore, provide sufficient risk sensitivity. As supervisory experience with the AMA has been mixed due to a lack of comparability and a wide range of internal modelling practices, the Committee has determined to withdraw internal modelling approaches for minimum regulatory capital requirement.

Whilst we understand the intentions of the Basel Committee to revise the current approaches and introduce the Standardised Measurement Approach (SMA), we welcome the adoptions made to the method, particularly the BI, based on the responses to the first consultation paper.

However, from our perspective there is still room for further changes to the current method in order to better account for business models that are not comparable to universal banks. Furthermore, we see the drawback that smaller AMA banks lose the ability to benefit form a good operational risk management, in the case they fall under BI bucket 1. For this reason, we propose to extend the method by an option, which allows the inclusion of the internal loss multiplier also in the BI bucket 1.

Furthermore, we would like to see the SMA account for different business segments by including a weighting according the approach conducted by the current Standardised Approach. In the following, we want to further discuss the rationale behind the addressed amendments in more detail and, in addition, address questions one and two out of the second consultative document.
Questions

**Question 1: What are respondents’ views on the revised structure and definition of the BI?**

In general, we welcome the revised structure and definition of the BI, as it addresses certain weaknesses of the first consultative document regarding an inappropriate calculation of risk of banks with high fee revenues and expenses. dwpbank and other transaction banks handle standardised securities transaction processes such as statements, corporate actions and interest and dividend income processing for their customers. Also, they ensure that technical custody and management processes for securities accounts are compliant with the latest legal and technical standards.

Securities transaction banking is a relatively new and dynamic speciality in the financial services sector. However, provisions income of transaction banks are by far less risky than provision income in the field of investment banking. We believe that this issue is not yet sufficiently addressed by the SMA and should be further calibrated.

From our perspective, we would like to see the introduction of a differentiated view within the BI regarding different business segments. We would propose to follow the approach by the current standardised approach and weight the BI by different factors that are calibrated to the different business segments. This approach would allow to further enhance the appropriateness of the method without adding further complexity to it.

**Question 2: What are respondents’ views on the inclusion of loss data into the SMA? Are there any modifications that the Committee should consider that would improve the methodology?**

We welcome the inclusion of internal loss data as it increases the risk sensitivity of the SMA. However, the proposals put forward by the Basel Committee does not include an option for smaller banks, that are currently using the AMA and will probably fall under SMA’s BI bucket 1 requirement. This fact could lead to an inappropriate calculation of risk of banks that lose the ability to benefit from their current operational risk management with the beginning of the SMA application.

For the purpose of calculating capital requirements according the SMA, we would like to see an option that allows the application of the internal loss multiplier also for calculating capital requirements in bucket 1. The option should address the fact that the granularity of loss data availability cannot be expected across every small bank. Moreover, this would allow to ensure that every current AMA user will be able to benefit from the risk sensitivity of the SMA regardless the size of the BI.

We hope that our comments are useful for further amendments to the SMA and are taken up going forward. We are happy to discuss any questions related the comments made.

Kind regards
Deutsche WertpapierService Bank AG

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