Quantitative Impact Study 3
Technical Guidance

The Bank and Insurance Division of the Austrian Federal Economic Chamber, representing the interests of all Austrian banks, holds the following position:

General assessment

1. No increase in capital requirements for all banks

Even if major progress has been made concerning the extent of capital requirements, it has to be ensured that, on the whole, there will be no increased capital requirements and, consequently, cost increases for the banks as is still the case with many banks.

In particular, the consideration of the operational risk must not lead to a higher capital charge.

2. Facilitation of SME lending, abolition of the 0.2% limit in the case of retail loans

In order for the facilitation of SME lending to really become effective, it is indispensable that the 0.2% limit for aggregate exposure to one counterparty in the overall regulatory retail portfolio is abolished. Maintaining this limit would lead to lasting distortions of competition.

3. Further facilitation of SME lending:

Even if important facilitation for SME lending is planned, further improvements are still required, in particular the dynamisation of the thresholds.

In the interest of a regulation pertaining to progressive rates, the following scaling for SMEs with a loan exposure exceeding EUR 1 million should be provided in addition to the risk weight of 75% for SMEs:

<table>
<thead>
<tr>
<th>Turnover</th>
<th>Risk Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to EUR 15 million</td>
<td>80%</td>
</tr>
<tr>
<td>Up to EUR 25 million</td>
<td>85%</td>
</tr>
<tr>
<td>Up to EUR 35 million</td>
<td>90%</td>
</tr>
<tr>
<td>Up to EUR 50 million</td>
<td>95%</td>
</tr>
</tbody>
</table>

4. Extended recognition of collateral customary in banking

The recognition of physical collateral and other collateral customary in banking has not yet been ensured to a sufficient extent. Even collateral typical of SMEs has still not been considered adequately.
5. Facilitation for small and medium-sized banks, reduction in system costs

The new rules have to be set out in such a way that the requirements can be met by smaller banks too. The proposals are still highly complex, requiring a great deal of time and effort. Thus the administrative stipulations have to be reduced considerably.

6. Partial use

We request the generous recognition of partial use in order to facilitate the use of the complex new system, both with regard to the capital charge and the treatment of collateral as well as the calculation of the operational risk.

Due to the high complexity of the proposals concerning the Internal Ratings Based Approach, it is necessary for smaller banks in particular to have the possibility of adopting the Internal Ratings Based Approach only partially as well.

The operations of internationally active banks in emerging markets also require a high degree of flexibility in this area.

7. Reduction of the disclosure requirements

Although the scope of the disclosure requirements has already been diminished, it has to be reduced further still. In this context, it is necessary to distinguish between data required for the supervisory authority and data to be published, as can be seen, for instance, in the current economic situation.

In this context, it is particularly important to avoid any disclosure of individual data.

8. Guarantee of a level playing field

- It has to be ensured that there is no competitive drawback for individual groups of market participants or individual instruments neither at the international nor at the national level, i.e. that a level playing field is guaranteed. In this connection, the danger of regulatory arbitrage has to be pointed out. Banks must not find themselves at a disadvantage vis-à-vis other financial service providers due to the new regulations.

- In view of the extensive international activities of Austrian banks, especially in Eastern Europe, it is necessary that the rules are as uniform as possible in the individual countries, not only for competitive reasons but mainly also for administrative considerations. In particular, different use of the areas of national discretion could make the uniform implementation of the new rules within a banking group considerably more complicated.

- Wherever there is meaningful national discretion, it also has to be ensured that the areas of national discretion are not exercised in a way that leads to distorted competition.

- National discretion requires increased co-operation between the national supervisory authorities as well as a high degree of transparency, especially with regard to the reasons for the respective exercise of the areas of national discretion.
9. **Cross-border provision of information on an individual customer basis**

The Basel Committee should take care that national rules do not prevent the implementation of the obligations arising from this concept. For example, the exchange of information and data concerning customers has to be possible even in case of cross-border group structures.

10. **Transitional periods for time series**

- We consider sufficient transitional arrangements for the required time series (2 years) necessary when adopting an advanced approach for the first time, regardless of the time of change.

- Sufficient transitional arrangements concerning data history should also apply for acquisitions and start-ups.

- The LGD time series and the PD time series should be harmonised and set at 5 years.

**Detailed comments:**

First of all, we would like to point out that the paper (e.g. paragraphs 77 and 79) refers to Pillars 2 and 3, although the relevant documents are not available.

Furthermore, we would like to comment in detail as follows:

I. **Scope of Application**

The banking industry in Austria welcomes the Basel Committee’s efforts to further internationally unify the scope of application of the Capital Accord. It has to be stressed, however, that apart from the general statements on the scope of consolidation, the national authorities are granted far-reaching discretionary powers (e.g. definition of the holding company and/or banking group, definition of the securities entities, consideration of minority investments, recognition of surplus capital in an insurance subsidiary, materiality of minority investments, major share of significant investments). Thus, the scope of application of the Basel capital requirements for consolidated regulation and supervision is undermined.

We take objection both to an obligatory sub-consolidation at each level and the deduction of third-party capital investments, particularly in the present form, which, on the one hand, is undifferentiated and, on the other hand, leaves national leeway.

Paragraphs 19 and 20 have been newly introduced. With regard to paragraph 19 (deduction of goodwill from tier 1, even in the case of significant minority investments in financial entities), it should be clarified that said deduction from tier 1 should only be effected at such internationally active (subsidiary) banks which are themselves carrying out a consolidation, but not at internationally active stand-alone banking subsidiaries. In case of the latter, it should be sufficient – as mentioned in footnote 2 of paragraph 3 - to deduct the full book value from the bank’s capital.
II. Credit Risk – Standardised Approach

23. Floors - calculation of minimum capital requirements
We would like to draw attention to the administrative burden caused by the additional calculation of the existing capital requirements in connection with the floors.

31.
In general, risk weighting should be allowed in accordance with “claims on banks” (making national discretion superfluous).

33.
A general application of a 0% risk weight or a list of multilateral development banks eligible for a 0% risk weight would be easier to manage than the review of the given criteria, with the result remaining unchanged.

37. Only one option preferred
In order to prevent distortions of competition only one option should be provided. Proceeding from the current assumptions, we prefer to choose option 1.

41.
An increase of the risk weights (corporate) to a value in excess of 100% for corporate claims should be defined more clearly.

43. 0.2% limit for retail portfolio
In order for the facilitation of SME lending to really become effective, it is indispensable that the 0.2% limit for aggregate exposure to one counterparty in the overall regulatory retail portfolio is abolished. Maintaining this limit would lead to lasting distortions of competition.

In Austria, this limitation would result in only approx. 50 banks being able to make use of the EUR 1-million limit.

50.
It is unclear which empirical data forms the basis for such an increase.
In general, the objective should be to standardise the credit conversion factors for the standardised approach and the IRB foundation approach.

84.
Banks with a banking and a trading book are only allowed to adopt the comprehensive approach. Maturity mismatches are also only considered under the comprehensive approach.

In general, both approaches should be admissible.

106.
Even if the residual maturity of the collateral is less than one year and there is a maturity mismatch, it should be possible to recognise the collateral.

108. + 109. Collateral
In addition to the collateral types that are currently recognised, the collateral customary in the banking industry in the individual countries should also be eligible for recognition.

114.
The daily mark-to-market valuation entails great effort and can only be performed with appropriate systems (and therefore with an appropriate high number of eligible collateral).
The required effort should, at any rate, be reduced.

**Credit risk - IRB**

**159. Risk transfer with guarantors**
Risk transfer with guarantors rated below A:

Based on the current Basel II proposal, no risk transfer is possible as a result of the guarantor’s insufficient good credit rating.

The problem mentioned here concerns international financing based on guarantees as well as domestic business and every loan in a group, where one group company alone has no sufficient good credit rating, but a guarantee is issued by another group company with a better credit rating (which, in turn, is also rated below A).

We propose that a risk transfer should be allowed in all cases where the guarantor has at least a comparable investment grade rating.

We propose that all legal constructions should be recognised as a guarantee that have the same material effect as a guarantee.

**180. Differentiation from specialised lending**
At any rate, the existing categorisation of the classes is sufficient. In general, the problem is that the more sub-classes exist, the more difficult the determinations and evaluations become.

**192. 44 Definition of residential mortgage loan**
In accordance with continental European practice, it should be clarified that the loan purpose of a residential mortgage encompasses all lending secured by home ownership.

**193. + 194. A 0.2% limitation of the retail portfolio not acceptable in the IRB either**
It has to be clarified what is meant by “a large pool of loans, which are managed on a pooled basis”. Limiting the amount to 0.2% of the retail portfolio is not conceivable.

**195.**
FMI should cover the sum of the expected losses plus two standard deviations. Furnishing proof of this is an additional effort – as is the determination of the data on loss rates and the volatility of the loss rates.

**203.**
Corporate receivables: The conditions listed constitute a complication and do not correspond to current market practice.

**217.**
Since under the market-based approach a 300% risk weight (public) or 400% risk weight (private) has to be applied (exception: 0% and 100% strategic/long-term), an unrestricted right of choice between the market-based approach and the PD/LGD approach has to be provided.
Collateral:

108 ff, 256, 455 f Recognition of collateral
- Improvements for mortgage collateral
  Particularly in retail banking (in the case of mortgages on private property), a yearly update as well as a qualified new appraisal every 3 years have to be rejected for cost reasons. The fluctuations in the value of such collateral move within a narrow range. Products secured by mortgages on private property tend to show a lower PD and high recovery rates. At the same time, the evaluation risk of such fungible collateral is relatively low. The new appraisal of long-term mortgage loans is questionable in retail banking, such as in case of building and loan associations where the over-collateralisation in the property value is constantly increasing due to the yearly redemption repayments.

- The requirement of annual external property evaluation is excessive; it should also be possible to have the appraisal performed by an independent bank-internal institution.

- In addition, the required degree of over-collateralisation of 140% seems too high. It should also be possible to use a collateral below a 30% degree of collateralisation of the loan exposure.

- The demands made on the evaluation of collateral are highly difficult to implement. Especially the regular monitoring in accordance with the requirements in the Technical Guidance and/or the Consultation Paper requires a lot of effort and can hardly be implemented in practice. In particular, the provision pertaining to the regular review of the value of the collateral seems to require a great deal of time and effort. In case of many collateral items of minor value, a yearly evaluation is unnecessary.

- Evaluation of collateral
  In this context, our main criticism is that an evaluation of collateral may only be performed by external qualified professionals.

276.
The application of a 50% CCF for LCs for both issuing and confirming banks is high. Empirical experience has shown that a significantly lower weighting would be justified.

290.
The consideration of 90% FMI is not acceptable; 100% should be recognised.

299. Equity exposure
Both the simple market-based approach and the PD/LGD approach lead to a disproportionately high risk weighting.

For this reason, a significantly lower standard LGD should be chosen for the PD/LGD approach (so far, only an adjustment from 100% to 90% was effected).
304 ff  Capital charges for equity holdings

- Under the IRB (simple risk weight) approach, the capital requirements for equity holdings that are not publicly traded shall be 300% and 400% respectively.

- In practice, this risk increase has not been seen.

- As a result, the provision of venture capital by banks would be at risk.

- In this context, we would like to draw attention to the stipulation which was announced regarding investments in companies necessary for banking operations. It is unclear why, for instance, for an investment in a computer centre a weighting of 100% is planned for a transitional period of 10 years only (“grandfathering”) while afterwards the new regulations of the Consultation Paper with weightings of up to 400% are to be introduced. These investments are not entered into for commercial reasons. Since these investments do not constitute any risk for the respective bank, any weighting - even at 100% - seems excessive. For this reason, we recommend a general reconsideration of this regulation.

313.
In order to be able to apply a zero risk weight for equities under IRB, the risk weight of the standardised approach has to be used as well.

322.
For purchased receivables, an LGD of 100% will be assumed unless PD and LGD can be determined. This rate should be decreased.

329.
The difference in the capital charge for customers in default under the standardised approach and the IRB approach is hard to justify (standardised approach: weighting of 150% - IRB: weighting of 625%).

341.
We would like to point out that qualitative factors, such as the personality of the entrepreneur behind an SME, should also be considered in the credit assessment for the internal rating.

399. Definition of default
The requirement of an obligor being 90 days past due is not in accordance with market practice and therefore has to be rejected. In any case, such a period would have to be valid uniformly for all countries. Specific provisions alone do not necessarily constitute a default.

405.
The documented policies mentioned here would mean a considerable additional effort and are therefore rejected.

407. Recovery from collateral
- The point of view concerning the bank’s internal costs associated with collecting the exposure is exaggerated. The cost items should be streamlined in a meaningful way.

- In the event that external parties take on the collection of the exposure, they will have to collect and save this data just like banks. Given the number of cases and the small amounts in retail banking, this would be too costly and cannot be expected from these agents.
417. The determination of historical recovery rates is partly not very meaningful since the data volume concerning the actual defaults is rather small. Moreover, the required effort would be disproportionately high.

439 f Less segmentation in the retail area:
In the retail area, the option to choose between the EL and the PD/LDG approach should continue to be available.

464. The requested analysis of the borrower’s business activities and industry are too extensive and could only be reviewed with a disproportionately high effort.

471. The additional requirement for leasing transactions and the risk weight of the residual value of 100% are new and require additional effort.

485. We take objection to the planned sanction that the IRB will not be recognised in the event of failure to meet the requirements set out in Pillar 3 since this is excessive.

IV. Credit Risk – Securitisation Framework

I. Preliminary remarks

Under the current proposals of the Basel Committee, the capital requirements on traditional and synthetic ABS structures tend to require a distinctively higher capital charge than would be necessary without securitisation. Since the maximum credit risk of a securitisation is limited to the loss of the securitised receivables pool, the capital charge for the banks participating in the securitisation should in total not be higher than it were if the exposure were not securitised. The strict requirements on securitisations already set out in the second proposal should offer sufficient security in international competition.

One of the most significant reasons why securitisations are effected by banks is the transfer of the credit risk to the market. Therefore, the capital charge should also be oriented towards the real risk carriers (originator in the case of retained tranches, investors, liquidity providers), thus securing an adequate risk coverage.

II. TREATMENT OF TRADITIONAL SECURITISATIONS IN THE IRB Approach

1. Capital charge

17. According to the current proposals of the Basel Committee, the originator’s capital requirements should amount to $K_{IRB}$ at most. It has to be ensured, however, that the capital requirements of all banks participating in the securitisation do not exceed $K_{IRB}$.

19. RBA risk weights
According to Working Paper 2, the ABS risk weights depend on the granularity of the underlying asset pool. A 7% weighting of an AAA-rated tranche of a pool that has been
diversified in the best possible way (highly granular) is to be regarded as the floor. Tranches below BB- should always be deducted from the capital.

23. Externally rated ABS tranches and risk weights (Rating Based Approach, RBA)
Positions with an external rating or an inferred rating have to be covered by capital in accordance with this rating. Retained tranches of securitising banks are regarded as first-loss positions up to the amount of $K_{IRB}$ regardless of the rating and must be deducted from the capital. However, originators can claim a cap in the amount of $K_{IRB}$ as long as they are entitled to rate the underlying assets pursuant to the IRB approach as well (e.g. for mortgage loans and, consequently, mortgage-backed securities as well).

Principally, the possibility of using external ratings for measuring risks in the IRB approach as well is to be regarded as positive. The proposed obligatory regulation should be an option. Provided that banks have the necessary information to calculate their capital requirements on the basis of internal ratings (Supervisory Formula Approach, SFA), this possibility should be available for externally rated tranches as well. At present, however, this possibility is only available to banks that are able to calculate $K_{IRB}$ for unrated tranches.

Due to the procedure as set forth so far, which stipulates the use of the RBA both for banks that are entitled to use the IRB approach and for those that do not have sufficient information, the publication of the $K_{IRB}$ amount by the originator would suffice.

24. Inferred rating
An inferred rating can be used for unrated tranches in structures with externally rated tranches. The prerequisites for inferring a rating are that the rated tranche is subordinated to the unrated tranche and has a maturity that is equal to longer than that of the unrated tranche.

We welcome the possibility of using an inferred rating for unrated tranches.

24 in conjunction with Annex 3 Part I: IV D 3 (ii)  520
The proposals mean that the originating bank is treated less favourably than the investor (originators are required to even deduct BBB-rated tranches from their capital, while investors only have to deduct B+ tranches or those rated below). This discrimination of the originator, for which there is no objective reason, should be changed.

29 in conjunction with Annex 3 Part I: IV D 3 (ii)  517
Similar credit risks – different treatment:

As far as the capital charge is concerned, securitisations are treated less favourably than corporate claims with the same credit risk. A higher risk weight is applied to the securitizations than to assets on the bank’s balance sheet.

<table>
<thead>
<tr>
<th></th>
<th>AAA to AA-</th>
<th>A+ to A-</th>
<th>BBB* to BBB-</th>
<th>BB+ to BB-</th>
<th>B+ and below</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate claims</td>
<td>20 %</td>
<td>50 %</td>
<td>100 %</td>
<td>100 %</td>
<td>150 %</td>
</tr>
<tr>
<td>Securitisations</td>
<td>20 %</td>
<td>50 %</td>
<td>100 %</td>
<td>350 % deduction</td>
<td></td>
</tr>
</tbody>
</table>

Result: Basel II would increase the capital requirements for the same risk.

We propose that securitisations should not be treated less favourably than corporate claims. The capital requirements for the same risk should therefore not be increased.
37 ff – Supervisory Formula
- Principally, the calculation of the capital requirement on the basis of an internal rating system (Supervisory Formula Approach, SFA) is to be regarded as positive. Moreover, we welcome the extension of the user group to include investors who can calculate KIRB. The SFA, however, should not only be applied to unrated tranches but also be regarded as a general rating principle the bank can opt for.

Subordinated tranches should be deducted from the capital up to the amount of the credit risk (KIRB) inherent in the securitised receivables pool. For unrated tranches in excess of this amount, the capital requirement should be calculated pursuant to the Supervisory Formula. To determine the SFA, information on the KIRB, the credit enhancement level, the tranche’s thickness, the effective number of exposures and the exposure-weighted average LGDs is required. A floor of 7% was established for highly-rated tranches.

Contrary to Working Paper 1 (fixed risk premium of 20%), in the current proposal well diversified portfolios have lower capital requirement, while poorly diversified portfolios have to bear higher capital costs. This procedure is to be regarded as an improvement compared to the original approach of fixed premiums. The extent of the granularity limits, however, still has to be discussed. We take objection to a minimum capital requirement of 7% for highly-rated tranches. This particularly applies to super senior tranches, which, theoretically, would have a rating of AAA+.

Principally, it has to be stated that, based on the current proposals, originators will start to place the highest possible percentage of the portfolio risk on the market as rated or turn to “unfunded structures”. Conservatively structured deals with a very large first-loss position retained by the originator will no longer be placed on the market due to the high capital charge imposed on the originator.

- The SFA in its current form seems useful only for newly issued ABS that have not suffered any severe portfolio deterioration or losses in the pool. The SFA is not suitable for distressed CBOs either. The reason for this is that the SFA solely focuses on the original structuring and subordination levels at the time of the issue. According to the Technical Guidance, paragraphs 578 and 579, the defaults in the pool that have already occurred have been insufficiently considered for the definition of L (credit enhancement) and T (thickness), which would actually have to be deducted from the over-collateralisation by the subordinated tranches.

40.
The consideration of granularity can be regarded as a first approach to distinguish between different asset classes that are also subject to different default risks.

The risk weights currently proposed in Working Paper 2 are clearly too high, in particular for very good credit ratings. A significant part of the concentration risks is already considered by the rating agencies, with pools with higher individual exposure concentrations requiring a higher credit enhancement.

Investments in unrated tranches

41.
Unrated tranches above KIRB have to be assessed pursuant to the SFA; tranches below KIRB have to be deducted from the capital. This calculation has to be used by originators and investors who are capable of calculating KIRB. If investors cannot calculate KIRB due to a lack of information, unrated tranches are to be deducted from the capital.
It has to be pointed out once more that due to the capital charge above $K_{IRB}$ there is a higher capital charge in absolute terms compared to the receivables pool that is not securitised. Since the default risk of the pool does not rise due to the securitisation and continues to be limited to $K_{IRB}$, we object to this procedure.

44. Standardised Approach
For liquidity facilities that meet certain criteria (clear conditions for drawing, equal ranking of assets provided as collateral and interest payments and fees, etc.), a conversion factor of 20% applies to a maturity of 1 year and 50% to a maturity of more than 1 year. The risk weight is the greater of 100% or the highest risk weight of the underlying receivables pool.

A risk weighting in accordance with the highest risk weight (at least 100%) does not seem justified. A weighting in accordance with the average rating would more adequately reflect the risk.

48. IRB Approach
A bank using the IRB approach has to be able to regularly calculate the underlying risk of the pool. Exposures below $K_{IRB}$ have to be deducted from the capital. For exposures above $K_{IRB}$, the RBA and the SFA apply.

Under the IRB approach, the Basel Committee differentiates between facilities that can only be drawn in the case of general market disturbances and all others. A conversion factor of 20% has been set for the first case, 100% for the latter.

Since only few liquidity facilities have an external rating, it would be sensible to resort to the rating of the ABCP Conduit in the RBA, except in the case of a mere change of market risks. The structuring of ABCP programmes and the required credit enhancement is effected in a way that does not threaten the conduit’s rating, meaning that sufficient information on the potential risk of the programmes is provided.

E 65 in conjunction with Annex 3, 539 and Annex 4, 14:
The exercising of a clean-up call option causes the securitisation to be terminated earlier than the other underlying transactions. This is treated as a maturity mismatch, and the originator has to deduct the remaining transactions that are unrated or rated below investment grade from the capital. This strict treatment of clean-up call options does not seem justified since it only concerns the preliminary termination of securitisations which would become uneconomical due to the administrative overheads for the low remaining liability.

V. Operational Risk

General assessment

- The possibility to define business lines flexibly is necessary, at least as far as the advanced approaches are concerned, since otherwise double calculations would be necessary particularly for the segment reporting when using IAS.

- We criticise the fact that it is generally not allowed to revert to simpler approaches once an advanced approach has been adopted. Under certain conditions, e.g. a significant decrease in business activity or a general change of the business activity, the use of simpler methods should be admissible.
591. Partial use
According to the Technical Guidance, it is possible to use the Basic Indicator or Standardised Approach for some business lines, while implementing the AMA for others. However, it is not certain that this possibility will be available permanently. The selection of the approach is mainly interesting for the implementation of the operational risk in banking subsidiaries in foreign countries. In this context, it would be desirable to be able to implement various approaches in parallel in the long run.

592. Basic Indicator Approach
Contrary to earlier papers, the value of alpha is set at 15%. However, the target of 12% of current MRC, which is aimed at in the comments, should not be exceeded, since the Basic Indicator Approach is only an overall approach that cannot be influenced by the bank through risk mitigation. Therefore, it would be inappropriate to tie up a higher capital share for it.

593.
The criticism of the indicator of gross income is upheld. This indicator is not risk-sensitive. Higher revenues are not comprehensively linked to a higher operational risk. This would disadvantage profitable banks. In addition, at a three-year average rate the relation to the risk arising from the ongoing business is missing.

Therefore, we suggest that the alternative indicators acquired on the basis of the pilot survey should be analysed in detail as to their applicability.

595. Standardised Approach
The definition of the business lines is not precise enough. The question arises whether payment transactions with retail customers are part of payment & settlement or retail banking (which have different values of beta).

597.
A bank that is only engaged in business lines with high values of beta (18%) has no incentive to use the standardised approach. With a value of alpha of 15% in the basic approach, the bank would, at any rate, have a low capital charge.

606 ff – AMA Approaches
- It would be principally worthwhile to reconsider covering the expected loss in the operational risk with capital. It is also unclear in which way the supervisors would expect the expected loss to be factored in to abandon the regulatory capital charge.

- The criteria according to which the national supervisory authorities permit a bank to use the AMA are completely missing. The significant points are not clear. At worst, there might be a “perpetual” acceptance procedure since the criteria are missing and the onus of proof is on the bank. The “period of initial monitoring” mentioned in connection with the permission to use the AMA is definitely too vague. We request a clearly defined time period, within which the supervisors check the quantitative and qualitative criteria and, if they are met, grant permission to use the AMA.

- There is no incentive to develop the AMA if both the expected and the unexpected loss have to be covered up until permission is granted. The regulatory capital charge seems much more expensive than with simpler approaches. A limitation of insurance mitigation to 10-25% of the total operational risk capital charge does not seem justifiable; it seems counterproductive since it prevents a bank from deciding to use a more advanced approach.
- The comparison with the IRB approach with a 99.9% confidence interval and a one-year holding period without any catastrophic events seems per se contradictory. A reduction of the confidence interval is required at any rate. With such a high confidence interval, stress-induced cases also have to be included. The confidence interval means that events occurring once in 999 years are included, which clearly can only be catastrophic events. The bank has no way of demonstrating that events only occur once in 1000 years.

- There should be no general prohibition to go back to a less advanced approach. If a bank qualifies for the AMA and considerably reduces its business activities after a few years, maintaining the AMA would not make any economic sense. It might be advisable to make it dependent on the total business volume.

612. The “Working Paper on the Regulatory Treatment of Operational Risk”, which was published in September 2001, stipulates:

“\[\text{The definitions of event types are intended to encompass certain operational risk losses that currently may be embedded in credit or market risk related exposures. Going forward, the RMG wants to encourage banks to track explicitly these types of operational risk losses to arrive at a comprehensive assessment of the true operational risk profile within and across institutions. The Committee expects banks to include all operational risks in the loss event database and have clear policies implemented for the management of these risks. Nevertheless, for regulatory capital purposes the Committee expects banks to attribute operational risk related credit and market loss events to those risk areas for the calculation of regulatory capital requirements.}\]”

Since these losses have no impact on the calculation of regulatory capital requirements in the AMA, a historical observation period of five (three) years should not be stipulated for the loss collection processes.

614. External Data

It is unclear what the supervisory authorities mean with “independent review” or who should carry it out.

617 f – Risk mitigation

- Risk-mitigating techniques are not sufficiently considered (e.g. the recognition of insurance, the improvement of computer systems - for example, straight-through processing, etc.). This results in the unsatisfactory situation that sophisticated methods of measurement are recognised but concrete risk-mitigating measures are not.

- The proposed limitation of the recognition of insurance mitigation to a level of 10-25% of the total operational risk capital charge does not make sense and minimises the incentive to intensively use risk mitigants.

- Smaller banks that do not qualify for the AMA but still manage and insure against the operational risks are sanctioned by the capital requirements since insurance mitigation is not accepted in the BIA and TSA. Analogous to the onus of proof in the AMA, a reduction of the capital charge could be allowed.

The criteria for national exception/acceptance rules should be defined in such a way that possible distortions of competition are avoided.
We welcome the planned efforts of the Committee to come up with a definition of accepted insurance mitigation.

618. The use of captive insurance companies should be recognised as risk mitigation. It might be a conceivable solution to be able to select a certain percentage for deduction from the capital requirement.

The use of the same criteria as in other risk categories for the mapping of business lines leads to a highly complex mapping structure, which could easily turn out to be impossible to implement.

Due to the special character of the operational risk (it is not a “position” risk such as market and credit risks), the mapping criteria should be based on criteria which the bank selects and which are subject to approval by the supervisory authority.

VI. Trading book issues

623. The requirements should be identical to those existing and not cause any additional effort.

652. The add-on factors for Total Return Swaps and Credit Default Swaps are new, and there should be empirical data substantiating them.