

Operational risk standardised approach – Executive Summary

In December 2017, the Basel Committee on Banking Supervision introduced the new standardised approach for calculating operational risk capital charge, which replaces all operational risk approaches under Basel II.

Components of the standardised approach

Under the new standardised approach, operational risk capital is calculated as follows:



The business indicator component (BIC)

The BIC corresponds to a progressive measure of income that increases with a bank's size. It serves as the baseline capital requirement and is calculated by multiplying the Business Indicator (BI) by marginal coefficients.

The BI is a financial statement-based proxy for operational risk consisting of three elements, each calculated as the average over three years:

1. the interest, leases and dividend component;
2. the services component; and
3. the financial component.

Marginal coefficients are regulatory determined constants based on the size of the BI.

The internal loss multiplier (ILM)

The ILM is a risk-sensitive component capturing a bank's internal operational losses. It serves as a scaling factor that adjusts the baseline capital requirement depending on the operational loss experience of the bank. It is proportional to the ratio of the loss component (LC) and the BIC, whereby the LC corresponds to 15 times the average annual operational risk losses incurred over the previous 10 years. In calculating the LC, banks need to meet the requirements on loss data identification, collection and treatment.

Disclosure and implementation timeline

All banks need to disclose each BI sub-item for each of the three years of the BI calculation window. Moreover, banks with BI exceeding EUR 1 billion, or that use internal loss data in the calculation of operational risk capital, need to disclose their annual loss data for each of the 10 years in the ILM calculation window.

As with all Basel Committee standards the new standardised approach applies to all internationally active banks on a consolidated basis, and national supervisors may also apply the framework to non-internationally active banks. The new standardised approach for operational risk must be implemented by 1 January 2022.

This Executive Summary and related tutorials are also available in [FSI Connect](#), the online learning tool of the Bank for International Settlements.