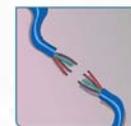


BA400 and BA410 Operational Risk

Presenter: Jacques Henning



Operational Risk defined



Introduction

- **Operational Risk Management**
- **Operational Risk practices are still in an evolving and maturing stage**
- **Forms the source of many large recent losses in both the Banking and Financial Industries**



The BA400 return (Bank Solo): Bank in Republic

Purpose:

Calculates a bank's capital requirement in respect of **all**

Operational Risk approaches:

- ✓ The Basic Indicator Approach (BIA)
- ✓ The Standardised Approach (TSA)
- ✓ Alternative Standardised Approach (ASA)
- ✓ Advanced Measurement Approach (AMA)

To reconcile the Gross Operating Income as per the BA 120 Return and the Gross Income figure used in the calculation of Operational Risk capital - for the BIA and TSA approaches.

Frequency:

Completed semi-annually according to the Bank's financial year-end: going forward, this will not change.



The NEW BA 400 return...part 1

OPERATIONAL RISK

BA400

(Confidential and not available for inspection by the public)

Six monthly

Name of bank.....

Six months ended.....(yyyy-mm-dd)

Table 1

(All amounts to be rounded off to t

Reconciliation of gross income	Line no.	Financial year -3	Financial year -2	Financial year -1
		1	2	3
Gross operating income (item 65 of form BA120)	1			
Adjustments ^{1,2} (total of items 3 to 9)	2			
Income derived from insurance	3			
Operating expenses, including fees paid by the reporting bank to service providers in respect of outsourcing	4			
Realised profits/losses on sale of securities held in the banking book	5			
Impairment	6			
Extraordinary or irregular items	7			
Adjusted prior period errors	8			
Other adjustments (please specify)	9			
Gross income (item 1 minus item 2)	10			

1. To the extent that these items are included in item 1 above.

2. Report any relevant expense or other amount to be deducted from gross operating income as a negative amount.

The NEW BA 400 return...part 2

Table 2

(All amounts to be rounded off to the nearest R)

Required capital and reserve funds	Line no.	Gross income			Loans and advances ¹			Relevant risk exposure	Percentage requirement	Capital requirement
		Financial year -3	Financial year -2	Financial year -1	Year -3	Year -2	Year -1			
		1	2	3	4	5	6			
Basic indicator approach	11							15%		
Standardised approach¹: gross income derived from- (total of items 13 to 20)	12									
Corporate finance	13							18%		
Trading and sales	14							18%		
Retail brokerage	15							12%		
Commercial banking	16							15%		
Retail banking	17							12%		
Payment and settlement	18							18%		
Agency services	19							15%		
Asset management	20							12%		
Alternative standardised approach¹ (total of items 22 to 25)	21									
Commercial banking ^{1,2}	22							15%		
Retail banking ^{1,2}	23							12%		
Commercial banking and retail banking ^{1,3}	24							15%		
Business lines other than commercial banking and retail banking ^{1,4}	25							18%		
Advanced measurement approach	26									
Capital requirement in respect of operational risk (total of items 11, 12, 21 and 26)	27									
Risk weighted exposure equivalent amount	28									
Table 3									Total	
Memorandum items⁵:									1	
Total capital requirement in terms of the AMA approach	29									
of which:										
partial use - basic indicator approach	30									
partial use - standardised approach	31									
AMA requirement before insurance and deductions in respect of expected loss	32									
of which:										
relates to expected loss	33									
Expected loss captured in business practice excluded from capital requirements	34									
Total capital alleviation from insurance	35									
Excess on limit for insurance capital alleviation	36									
AMA due to an allocation mechanism	37									

The NEW BA 400 return...part 3

(All amounts to be rounded off to the nearest R'000)

Model descriptive statistics ¹	Line no.	Description				
		Mean	25 th percentile	50 th percentile (Median)	75 th percentile	99.9 th percentile
		1	2	3	4	5
Undiversified VaR	38					
Diversified VaR ²	39					
Hashtotal	40					

1. Relates only to the advanced measurement approach.
2. Relates only to banks that obtained the approval of the Registrar to calculate and apply diversified VaR.

NOTE:

The Model Descriptive Statistics should be completed and reported on the level at which the AMA Model was run (i.e. Bank Solo or Group Level).



BA 400 return changes

There is a **NEW Model Descriptive Statistics section** at the end of the BA400 return.

Only AMA Banks are required to provide information on:

- Undiversified Value at Risk (VaR)
- Diversified VaR

In terms of the Mean, 25th, 50th (Median), 75th and 99.9th percentiles respectively



BA 400 return changes

Guidance Note 6/2012 issued in terms of section 6(5) of the Banks Act, 1990

Guidance Note 7/2012 issued in terms of section 6(5) of the Banks Act, 1990

Guidance Note 8/2012 issued in terms of section 6(5) of the Banks Act, 1990

There will be a **parallel run of the BA400** return which is required for submission by 5 February 2013



Impact on the NEW BA 610 return

The changes mentioned will not have an impact on the BA610 return

J. 1 OPERATIONAL RISK

(All amounts to be rounded off to the nearest '000)

Summary information relating to required capital and reserve funds and risk weighted exposure	Line no.	Gross income			Loans and advances ¹			Relevant risk exposure	Percentage requirement	Capital requirement
		Financial year -3	Financial year -2	Financial year -1	Year -3	Year -2	Year -1			
		1	2	3	4	5	6			
Basic indicator approach	278								15%	
Standardised approach ¹ : gross income derived from- (total of items 280 to 287)	279									
Corporate finance	280								18%	
Trading and sales	281								18%	
Retail brokerage	282								12%	
Commercial banking	283								15%	
Retail banking	284								12%	
Payment and settlement	285								18%	
Agency services	286								15%	
Asset management	287								12%	
Alternative standardised approach ¹ (total of items 289 to 292)	288									
Commercial banking ^{1,2}	289								15%	
Retail banking ^{1,2}	290								12%	
Commercial banking and retail banking ^{1,3}	291								15%	
Business lines other than commercial banking and retail banking ^{1,4}	292								18%	
Advanced measurement approach	293									
Capital requirement in respect of operational risk (total of items 278, 279, 288 and 293)	294									
Risk weighted exposure equivalent amount	295									

1. A bank that obtained the approval of the Registrar to apply the alternative standardised approach shall instead of items 280 to 287 complete the relevant items specified in items 288 to 292.

Refer to the relevant directives specified in regulation 33(8)(c).

2. Refer to regulation 33(8)(c)(II)(A).

3. Refer to regulation 33(8)(c)(II)(B).

4. Refer to regulation 33(8)(c)(II)(C).

The BA410 return **Bank solo and Controlling Company Consolidated**

Purpose:

To obtain selected information in respect of, inter alia, loss event types, recorded losses and recovery of loss.

- ✓ Completed by AMA Banks as per the Regulations
- ✓ *However, TSA and ASA Banks are also required to complete this return (per approval letters)*

Frequency:

Currently this return is completed on an annual basis in line with the bank's financial year-end

Special note:

During the industry training it was mentioned that the BA410 return should only be completed at a bank solo level. This Office has subsequently reconsidered and banks should continue to complete the BA410 at a bank solo level as well as controlling company consolidated level if so instructed previously by this Office.



The NEW BA 410 return...part 1

OPERATIONAL RISK

(Confidential and not available for inspection by the public)

Name of bank.....

Six months ended.....(yyyy-mm-dd) (June and December of each year)

BA410

Six monthly

(All amounts to be rounded off to the nearest R'000)

Advanced measurement approach Selected information relating to loss events	Line no.	Event type							Total (of col. 1 to 7) 8	Memorandum: threshold applied i.r.o data collection ¹	
		Internal fraud	External fraud	Employment practices and workplace safety	Client, products and business practices	Damage to physical assets	Business disruption and system failures	Execution, delivery and process management		Lowest	Highest
		1	2	3	4	5	6	7		9	10
Corporate finance											
Number of events ²	1										
Gross loss amount ³	2										
Total recoveries ⁴	3										
Current reporting period	4										
Prior reporting period	5										
Net loss amount ⁵	6										
Maximum single loss ⁵	7										
Trading and sales											
Number of events ²	8										
Gross loss amount ³	9										
Total recoveries ⁴	10										
Current reporting period	11										
Prior reporting period	12										
Net loss amount ⁵	13										
Maximum single loss ⁵	14										
Retail brokerage											
Number of events ²	15										
Gross loss amount ³	16										
Total recoveries ⁴	17										
Current reporting period	18										
Prior reporting period	19										
Net loss amount ⁵	20										
Maximum single loss ⁵	21										
Commercial banking											
Number of events ²	22										
Gross loss amount ³	23										
Total recoveries ⁴	24										
Current reporting period	25										
Prior reporting period	26										
Net loss amount ⁵	27										
Maximum single loss ⁵	28										

“Loss event as a % of gross income” - previously column 9 - has been removed

Threshold: Highest & lowest only to be identified for Gross loss amount

The NEW BA 410 return...part 2

659

(All amounts to be rounded off to the nearest R'000)

Advanced measurement approach Selected information relating to loss events	Line no.	Event type							Total (of col. 1 to 7)	Memorandum: threshold applied i.r.o data collection ¹	
		Internal fraud 1	External fraud 2	Employment practices and workplace safety 3	Client, products and business practices 4	Damage to physical assets 5	Business disruption and system failures 6	Execution, delivery and process management 7		Lowest 9	Highest 10
Retail banking											
Number of events ²	29										
Gross loss amount ³	30										
Total recoveries ⁴	31										
Current reporting period	32										
Prior reporting period	33										
Net loss amount ⁵	34										
Maximum single loss ⁶	35										
Payment and settlement											
Number of events ²	36										
Gross loss amount ³	37										
Total recoveries ⁴	38										
Current reporting period	39										
Prior reporting period	40										
Net loss amount ⁵	41										
Maximum single loss ⁶	42										
Agency services											
Number of events ²	43										
Gross loss amount ³	44										
Total recoveries ⁴	45										
Current reporting period	46										
Prior reporting period	47										
Net loss amount ⁵	48										
Maximum single loss ⁶	49										
Asset management											
Number of events ²	50										
Gross loss amount ³	51										
Total recoveries ⁴	52										
Current reporting period	53										
Prior reporting period	54										
Net loss amount ⁵	55										
Maximum single loss ⁶	56										
Total i.r.o event types											
Number of events ²	57										
Gross loss amount ³	58										
Total recoveries ⁴	59										
Current reporting period	60										
Prior reporting period	61										
Net loss amount ⁵	62										
Maximum single loss ⁶	63										

“Loss event as a % of gross income” - previously column 9 - has been removed

Threshold : Highest & lowest only to be identified for Gross loss amount

1. Means the relevant gross loss threshold amount specified by the bank for data collection.
2. Means the total number of occurrences of the particular event during the current reporting period.
3. Means the total loss amount before any recoveries are taken into consideration.
4. Include an amount recovered in terms of insurance.
5. Means gross loss amount less total recoveries in the current reporting period.
6. Means the largest individual gross loss amount incurred during the current reporting period.

The NEW BA 410 return...part 3

Selected information relating to recorded losses ¹	Line no.	Internal code ²	Entity code where event took place ²	Gross loss amount	Total loss recovered (col. 5 plus 6)	Loss mitigation/ recovered		Risk event type ^{2,3}	Dates (yyyy/mm/dd)			
						Insurance	Other		Event	Recognition	1 st payment from risk transfer mechanism	Latest payment from risk transfer mechanism
Total ²	64											
	65											
	66											
	67											
	68											
	69											
	70											
	71											
	72											
	73											
	74											
	75											
Selected information relating to recorded losses ¹	Line no.	Breakdown of gross loss (%) per business line								Status: ended (Y/N)	Comment ²	
		Corporate finance	Trading and sales	Retail brokerage	Commercial banking	Retail banking	Payment and settlement	Agency services	Asset management			
		12	13	14	15	16	17	18	19			20
Total ²	64											
	65											
	66											
	67											
	68											
	69											
	70											
	71											
	72											
	73											
	74											
	75											
Hashtotal	76											

1. Relates to gross losses recorded during the current reporting period, which loss events may still be open.
2. Please provide relevant required detail and additional comment on a separate list.
3. Based on the following specified keys: 1 = internal fraud; 2 = external fraud; 3 = employment practices and workplace safety; 4 = clients, products and business practices; 5 = damage to physical assets; 6 = business disruption and system failure; 7 = e

The BA 410 return changes

- The BA 410 Return will now be **submitted six-monthly in accordance with calendar months (i.e. June and December)**. Hence the phrase “Financial Year” has been changed to “**reporting period**”.
- The column “**Loss event as a % of gross income**” – **previously column 9** has been removed.



The BA 410 return changes

Guidance Note 6/2012 issued in terms of section 6(5) of the Banks Act, 1990

Guidance Note 7/2012 issued in terms of section 6(5) of the Banks Act, 1990

Guidance Note 8/2012 issued in terms of section 6(5) of the Banks Act, 1990

There will **NOT** be a **parallel run of the BA410**



The End

Questions?



South African Reserve Bank