

POSITION PAPER



**ESBG Response to
CEBS consultation on its
Compendium of Supplementary Guidelines on
implementation issues of operational risk**

31 March 2009



The European Savings Banks Group (ESBG) welcomes the opportunity to comment on the consultative document issued by the Committee of European Banking Supervisors (CEBS) entitled ‘Compendium of Supplementary Guidelines on implementation issues of operational risk’ (Operational Risk Compendium).

By and large, we support the general lines of the consultative document. In the following we make some remarks that could in our view contribute to further improving CEBS’ document.

Section A. Introduction, paragraph 5

Given the high relevance of CEBS guidelines on operational risk, the ESBG underlines that it is essential that any changes to their content be subject to public consultation. Therefore, we would welcome it, if this were explicitly mentioned in the Introduction. We would suggest adding to paragraph 5 a sentence stating that each update of the “Operational Risk Compendium” will first be published for consultation of all stakeholders.

Section C. Published Guidance Papers, subsection 1, paragraph 1

The ESBG would like to point to the fact that operational risk is equally prompted by both, internal and external drivers. It is in general not true and in any case not true for all credit institutions that operational risk is mainly triggered by internal drivers, as ascertained in the first sentence of the paragraph. Data collected by some ESBG Members show that more than half of the losses associated to operational risks (both by number and by amount) are triggered by external events or influences. The mere fact that the Capital Requirements Directive (CRD) divides the internal drivers into three subcategories to explain them does not mean there is more operational risk associated to them, than to external drivers. Furthermore, we do not see any connection between paragraph 1 and the subsequent paragraphs, nor do we understand its significance. For these reasons, the ESBG suggests to remove the whole paragraph from the paper.

Section C. Published Guidance Papers, subsection 1, paragraph 7

In our opinion, it is not appropriate to say that the issue of the “scope of operational risk loss” is not addressed in the CRD. We consider that it is - at least partly - addressed in the CRD, in Annex X, Part 3, 1.2.2 Internal Data, paragraphs 15 and 16:

“15. [...] Appropriate minimum loss thresholds for internal loss data collection must be defined.



16. Aside from information on gross loss amounts, credit institutions shall collect (...) any recoveries of gross loss amounts, [...].”

Section C. Published Guidance Papers, subsection 3.1, paragraph 17

The ESBG considers that there is a need to clarify the meaning of “the whole amount of the loss incurred”. In our opinion losses incurred after the date of occurrence of the operational risk event should not be part of the operational risk loss if the position could have been closed (there has been a market) but there was a deliberate decision to keep the position. These kinds of losses are to be attributed to market risks.

As regards the examples of cases to be excluded from the “scope of operational risk”, CEBS paper indicates “Losses caused by a pricing model where the potential exposure to the model risk had been previously assessed, including by considering potential adjustments to ‘mark-to-market’ transactions”. The last half-phrase (“including by considering potential adjustments to “mark-to-market” transactions”) is difficult to understand in the context. If potential adjustments to “mark-to-market” transactions were not included, would it be considered operational risk? The ESBG would welcome a clarification of the example.

Section C. Published Guidance Papers, subsection 3.2, paragraph 18

Two subparagraphs start with “A”.

Section C. Published Guidance Papers, subsection 4, paragraph 21

CEBS proposes that the elements/items 1 to 4 from the indicative table on the type of elements/items that can result from an operational risk event should be included in the scope of operational risk loss for management and measurement purposes. The ESBG would suggest that the text be further clarified by explicitly indicating that elements/items 5 to 7 can be used for management purposes, but are not to be included for measurement purposes.

Section C. Published Guidance Papers, subsection 4, paragraph 23, first bullet point

In our view, this paragraph goes beyond the CRD. We do not understand “near misses” and “gains/profits” as losses - or should the loss thresholds be negative?

Furthermore these guidelines should not go beyond accounting rules by forcing credit institutions to collect “opportunity costs / lost revenues”. Especially, given that “near misses” and “opportunity costs / lost revenues” are hard to quantify, respectively allow a great range of estimations, institutions should not be forced to quantify them. In our view, there should just be a recommendation that these elements/items be considered in scenario analysis.



It is already a challenge to collect the elements 1 to 4. In our opinion, credit institutions should focus on the elements 1 to 4. Developing criteria and procedures for collecting items 5 to 7 can be particularly burdensome. The ESBG suggests either deleting the first bullet point altogether or stating clearly that it is only a recommendation to consider the elements 5 to 7. We would welcome it, if at least the proportionality principle would be explicitly mentioned.



About ESBG (European Savings Banks Group)

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising about one third of the retail banking market in Europe, with total assets of € 5215 billion (1 January 2006). It represents the interest of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

ESBG Members are typically savings and retail banks or associations thereof. They are often organized in decentralized networks and offer their services throughout their region. ESBG Member banks have reinvested responsibly in their region for many decades and are one distinct benchmark for corporate social responsibility activities throughout Europe and the world.



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