Basel Committee on Banking Supervision

DIS

Disclosure requirements

DIS60

Operational risk

Version effective as of 01 Jan 2023

Updated to take account of the new standardised approach to operational risk introduced in the December 2017 Basel III publication. Updated to take account of new implementation date as announced on 27 March 2020.

BANK FOR INTERNATIONAL SETTLEMENTS

Introduction

60.1 The disclosure requirements under this section are:

(1) Table ORA – General qualitative information on a bank’s operational risk framework

(2) Template OR1 – Historical losses

(3) Template OR2 – Business indicator and subcomponents

(4) Template OR3 – Minimum required operational risk capital

Table ORA: General qualitative information on a bank's operational risk framework

Purpose: To describe the main characteristics and elements of a bank's operational risk management framework.
Scope of application: The table is mandatory for all banks.
Content: Qualitative information.
Frequency: Annual.
Format: Flexible.
Banks must describe:
(a) Their policies, frameworks and guidelines for the management of operational risk.
(b) The structure and organisation of their operational risk management and control function.
(c) Their operational risk measurement system (ie the systems and data used to measure operational risk in order to estimate the operational risk capital charge).
(d) The scope and main context of their reporting framework on operational risk to executive management and to the board of directors.
(e) The risk mitigation and risk transfer used in the management of operational risk. This includes mitigation by policy (such as the policies on risk culture, risk appetite, and outsourcing), by divesting from high-risk businesses, and by the establishment of controls. The remaining exposure can then be absorbed by the bank or transferred. For instance, the impact of operational losses can be mitigated with insurance.

Template OR1: Historical losses

Purpose: To disclose aggregate operational losses incurred over the past 10 years, based on the accounting date of the incurred losses. This disclosure informs the operational risk capital calculation. The general principle on retrospective disclosure set out in DIS10.6 does not apply for this template. From the implementation date of the template onwards, disclosure of all prior periods is required, unless firms have been permitted by their supervisor to use fewer years in their capital calculation on a transitional basis.

Scope of application: The table is mandatory for: (i) all banks that are in the second or third business indicator (BI) bucket, regardless of whether their supervisor has exercised the national discretion to set the internal loss multiplier (ILM) equal to one; and (ii) all banks in the first BI bucket which have received supervisory approval to include internal loss data to calculate their operational risk capital requirements.

Content: Quantitative information.

Frequency: Annual.

Format: Fixed. National supervisors may prescribe further guidance regarding the disclosure of the total number of exclusions in rows 4 and 9.

Accompanying narrative: Banks are expected to supplement the template with narrative commentary explaining the rationale in aggregate, for new loss exclusions since the previous disclosure. Banks should disclose any other material information, in aggregate, that would help inform users as to its historical losses or its recoveries, with the exception of confidential and proprietary information, including information about legal reserves.

		a	b	c	d	e	f	g	h	i	j	k
		T	T-1	T-2	T-3	T-4	T-5	T-6	T-7	T-8	T-9	Ten-year average
Using €20,000 threshold												
1	Total amount of operational losses net of recoveries (no exclusions)											
2	Total number of operational risk losses											
3	Total amount of excluded operational risk losses											
4	Total number of exclusions											

5	Total amount of operational losses net of recoveries and net of excluded losses											
Using €100,000 threshold												
6	Total amount of operational losses net of recoveries (no exclusions)											
7	Total number of operational risk losses											
8	Total amount of excluded operational risk losses											
9	Total number of exclusions											
10	Total amount of operational losses net of recoveries and net of excluded losses											
Details of operational risk capital calculation												
11	Are losses used to calculate the ILM (yes /no)?											
12	If "no" in row 11, is the exclusion of internal loss data due to non-compliance with the minimum loss data standards (yes/no)?											
13	Loss event threshold: €20,000 or €100,000 for the operational risk capital calculation if applicable											

Definitions

Row 1: Based on a loss event threshold of €20,000, the total loss amount net of recoveries resulting from loss events above the loss event threshold for each of the last 10 reporting periods. Losses excluded from the operational risk capital calculation must still be included in this row.

Row 2: Based on a loss event threshold of €20,000, the total number of operational risk losses.

Row 3: Based on a loss event threshold of €20,000, the total net loss amounts above the loss threshold excluded (eg due to divestitures) for each of the last 10 reporting periods.

Row 4: Based on a loss event threshold of €20,000, the total number of exclusions.

Row 5: Based on a loss event threshold of €20,000, the total amount or operational risk losses net of recoveries and excluded losses.

Row 6: Based on a loss event threshold of €100,000, the total loss amount net of recoveries resulting from loss events above the loss event threshold for each of the last 10 reporting periods. Losses excluded from the operational risk capital calculation must still be included in this row.

Row 7: Based on a loss event threshold of €100,000, the total net loss amounts above the loss threshold excluded (eg due to divestitures) for each of the last 10 reporting periods.

Row 8: Based on a loss event threshold of €100,000, the total number of operational risk losses.

Row 9: Based on a loss event threshold of €100,000, the total number of exclusions.

Row 10: Based on a loss event threshold of €100,000, the total amount or operational risk losses net of recoveries and excluded losses.

Row 11: Indicate whether the bank uses operational risk losses to calculate the ILM. Banks using ILM=1 due to national discretion should answer no.

Row 12: Indicate whether internal loss data are not used in the ILM calculation due to non-compliance with the minimum loss data standards as referred to by OPE25.12 and OPE25.13. The application of any resulting multipliers must be disclosed in row 2 of Template OR3 and accompanied by a narrative.

Row 13: The loss event threshold used in the actual operational risk capital calculation (ie €20,000 or €100,000) if applicable.

Columns: For rows 1 to 10, T denotes the end of the annual reporting period, T-1 the previous year-end, etc. Column (k) refers to the average annual losses net of recoveries and excluded losses over 10 years.

Notes:

Loss amounts and the associated recoveries should be reported in the year in which they were recorded in financial statements.

Template OR2: Business Indicator and subcomponents

Purpose: To disclose the business indicator (BI) and its subcomponents, which inform the operational risk capital calculation. The general principle on retrospective disclosure set out in DIS10.6 does not apply for this template. From the implementation date of this template onwards, disclosure of all prior periods is required.

Scope of application: The table is mandatory for all banks.

Content: Quantitative information.

Frequency: Annual.

Format: Fixed.

Accompanying narrative: Banks are expected to supplement the template with narrative commentary to explain any significant changes over the reporting period and the key drivers of such changes. Additional narrative is required for those banks that have received supervisory approval to exclude divested activities from the calculation of the BI.

		a	b	c
	BI and its subcomponents	T	T-1	T-2
1	Interest, lease and dividend component			
1a	Interest and lease income			
1b	Interest and lease expense			
1c	Interest earning assets			
1d	Dividend income			
2	Services component			
2a	Fee and commission income			
2b	Fee and commission expense			
2c	Other operating income			
2d	Other operating expense			
3	Financial component			
3a	Net P&L on the trading book			
3b	Net P&L on the banking book			
4	BI			

5	Business indicator component (BIC)			

Disclosure on the BI:

		a
6a	BI gross of excluded divested activities	
6b	Reduction in BI due to excluded divested activities	

Definitions

Row 1: The interest, leases and dividend component (ILDC) = Min [Abs (Interest income - Interest expense); 2.25%* Interest-earning assets] + Dividend income. In the formula, all the terms are calculated as the average over three years: T, T-1 and T-2.

The interest-earning assets (balance sheet item) are the total gross outstanding loans, advances, interest-bearing securities (including government bonds) and lease assets measured at the end of each financial year.

Row 1a: Interest income from all financial assets and other interest income (includes interest income from financial and operating leases and profits from leased assets).

Row 1b: Interest expenses from all financial liabilities and other interest expenses (includes interest expense from financial and operating leases, losses, depreciation and impairment of operating leased assets).

Row 1c: Total gross outstanding loans, advances, interest-bearing securities (including government bonds) and lease assets measured at the end of each financial year.

Row 1d: Dividend income from investments in stocks and funds not consolidated in the bank's financial statements, including dividend income from non-consolidated subsidiaries, associates and joint ventures.

Row 2: Service component (SC) = Max (Fee and commission income; Fee and commission expense) + Max (Other operating income; Other operating expense). In the formula, all the terms are calculated as the average over three years: T, T-1 and T-2.

Row 2a: Income received from providing advice and services. Includes income received by the bank as an outsourcer of financial services.

Row 2b: Expenses paid for receiving advice and services. Includes outsourcing fees paid by the bank for the supply of financial services, but not outsourcing fees paid for the supply of non-financial services (eg logistical, IT, human resources).

Row 2c: Income from ordinary banking operations not included in other BI items but of a similar nature (income from operating leases should be excluded).

Row 2d: Expenses and losses from ordinary banking operations not included in other BI items but of a similar nature and from operational loss events (expenses from operating leases should be excluded).

Row 3: Financial component (FC) = Abs (Net P&L Trading Book) + Abs (Net P&L Banking Book). In the formula, all the terms are calculated as the average over three years: T, T-1 and T-2.

Row 3a: This comprises (i) net profit/loss on trading assets and trading liabilities (derivatives, debt securities, equity securities, loans and advances, short positions, other assets and liabilities); (ii) net profit/loss from hedge accounting; and (iii) net profit/loss from exchange differences.

Row 3b: This comprises (i) net profit/loss on financial assets and liabilities measured at fair value through profit and loss; (ii) realised gains/losses on financial assets and liabilities not measured at fair value through profit and loss (loans and advances, assets available for sale, assets held to maturity, financial liabilities measured at amortised cost); (iii) net profit/loss from hedge accounting; and (iv) net profit/loss from exchange differences.

Row 4: The BI is the sum of the three components: ILDC, SC and FC.

Row 5: The BIC is calculated by multiplying the BI by a set of regulatory determined marginal coefficients (αi). The marginal coefficients increase with the size of the BI: 12% for BI ≤ €1bn; 15% for €1bn < BI ≤ €30bn; and 18% for BI > €30bn.

Disclosure on BI should be reported by banks that have received supervisory approval to excluded divested activities from the calculation of the BI.

Row 6a: The BI reported in this row includes divested activities.

Row 6b: Difference between BI gross of divested activities (row 6a) and BI net of divested activities (row 4).

Columns: T denotes the end of the annual reporting period, T-1 the previous year-end, etc.

Linkages across templates

[OR2:5/a] is equal to [OR3:1/a]

Template OR3: Minimum required operational risk capital

Purpose: To disclose operational risk regulatory capital requirements.

Scope of application: The table is mandatory for all banks.

Content: Quantitative information.

Frequency: Annual.

Format: Fixed.

		a
1	Business indicator component (BIC)	
2	Internal loss multiplier (ILM)	
3	Minimum required operational risk capital (ORC)	
4	Operational risk RWA	

Definitions

Row 1: The BIC used for calculating minimum regulatory capital requirements for operational risk.

Row 2: The ILM used for calculating minimum regulatory capital requirements for operational risk. Where national jurisdictions choose to exclude losses from the operational risk calculation, the ILM is set equal to one.

Row 3: Minimum Pillar 1 operational risk capital requirements. For banks using operational risk losses to calculate the ILM, this should correspond to the BIC times the ILM. For banks not using operational risk losses to calculate the ILM, this corresponds to the BIC.

Row 4: Converts the minimum Pillar 1 operational risk capital requirement into RWA.