

Meeting Between Staff of the Federal Deposit Insurance Corporation, Federal Reserve System, Office of the Comptroller of the Currency, and Representatives from Operational Riskdata eXchange Association (ORX), Capital One, Barclays, State Street, J.P. Morgan, UBS, Bank of New York Mellon, US Bank, Northern Trust Corporation, Wells Fargo, HSBC, and Morgan Stanley

January 10, 2024

Participants:

Anjoly David, Catherine Wood, Andrew Carayiannis, Lauren Brown, Kyle McCormick, and Rachel Romm (Federal Deposit Insurance Corporation)

Alex Jiron, Alice Moore, Jonah Kind, Mark Buresh, Shooka Saket, Lars Arnesen, Anya Kleymenova, and Marco Goncalves Migueis (Federal Reserve Board)

Benjamin Pegg and Venus Fan (Office of the Comptroller of the Currency)


David Cox, Chelsea Van Manen, Yeonjoon Lee, Sonia Karami, and David Aldama Navarrete (Federal Reserve Bank of Richmond)

John Bosness, Luke Carrivick, Martin Monakhov, Roland Kennett, and Sarah Astill (ORX); Ni Kenney (Capital One); Yasin Benzawi (Barclays); Rushit Kamani (State Street); Nedim Baruh (J.P. Morgan); Eric Cope (UBS); Michael Rachlin (BNY Mellon); Ryan Thompson (US Bank); Regina Desler (Northern Trust Corporation); Margaret Natale (Wells Fargo); Brian Jaggar (HSBC); Angela Shen Ross (Morgan Stanley)

Summary: Staffs of the Federal Deposit Insurance Corporation, Federal Reserve System, and Office of the Comptroller of the Currency (collectively, the “agencies”) met with representatives from Operational Riskdata eXchange Association (ORX) and its members (collectively, the “ORX representatives”) regarding the agencies’ Notice of Proposed Rulemaking on Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity (FDIC RIN 3064–AF29) (the “NPR”), which was published in the Federal Register on September 18, 2023 (88 FR 64028). The ORX representatives discussed the NPR’s proposed treatment of operational risk and its impact. They provided the attached slide deck and indicated that they intend to also submit a public comment.

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ORX community technical discussion on Basel III endgame



Advancing risk management together



Purpose

The purpose of the meeting is to provide an opportunity for technical discussion on the operational risk aspects of the Basel III end game. In particular, the intent is to focus on a level of detail which might not have been explicitly covered in other discussions, or responses that will be shortly submitted.

The discussion will be informal and constructive.



Introduction – ORX view

There is a broad acceptance across the ORX membership that since the Basel III rules are a standardized approach there will inevitably be compromises in its design. A couple of those are that:

- A loss component (LC) that assumes a consistent relationship between expected and unexpected loss (factor of 15)
- Size as a proxy for complexity (as seen in the increasing percentages in the BI)

There are several details in the Basel III endgame proposal for operational risk which deviate from the implementations seen in other jurisdictions. In particular :

- Inclusion of internal loss data, furthermore in a way such that ILM only acts to increase.
- A broader definition of timing losses in comparison to typical practice
- A proposal for M&A to reflect the loss profile of the acquiring entity
- A potential for conservatism via the Stressed Capital Buffer – although this is less about the Basel III endgame, rather the related capital regulations.

In combination they may contribute to a higher capital calibration, but there are levers that can counterbalance this and remain within the same design and spirit of the approach. For example, the % and thresholds in the BI, the length of historical data, the implementation of ILM, some of the details around losses.

The agenda will focus on data (the inputs), the methodology, and some practical points on implementation. There will also be time for questions on the ORX benchmark report, and other topics of interest.

Outline Agenda

1. Technical data - inputs

- a. **Timing losses.** Timing loss proposal goes beyond typical practice, expanding the definition of a loss to non-financial impacts. The wording also unclear, particularly the reference to equity capital. There is an opportunity for greater clarity, and a clearer concept of materiality.
- b. **Estimated losses for M&A entities.** Practicality and logic of estimating internal losses of an acquired entity based on the materiality and type of the acquisition.

2. Calculation methodology

- a. **Flooring the ILM at 1.** Reasoning for doing this. Incentives it creates, or indeed removes. Disadvantages it introduces.
- b. **Calibration of the Services Component.** This component is more significant for US banks than other jurisdictions (see ORX capital benchmarking studies since 2018), and an area of disparity between the BIC and LC. In the absence of changes to the ILM, suggestions are to modify its design, or restrict this in some way, e.g. capping as a function of the overall BI.

3. Implementation

- a. **Retrospective vs go forward.** For changes in data (e.g. M&A, timing) what will the biggest challenges be if rules are retrospective?
- b. **Interplay with other regulations.** Conservativeness due to the stressed capital buffer. CCAR. Loss reporting in Schedule E vs Basel III endgame.
- c. **Loss data.** If an amendment is made to fix ILM = 1 (as we see in some other jurisdictions), what is the view on the impact this will have on the collection of loss data?

4. Questions on the ORX report into standardized capital

In October ORX published a report that analysed the standardised approaches for regulatory capital that have been available over the last 21 years and compare to various implementations of the new Standardised Approach.

5. Any other questions from the guests – particularly those based on feedback to date



Participants

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ORX



Luke Carrivick,
Executive Director



Roland Kennett,
Membership Director



Sarah Astill,
Head of Risk Measurement



John Bosnell,
Standards Senior Manager



Martin Monakhov
Research Manager

Participants – ORX Members

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- Yasin Benzawi, *Barclays*
- Michael Rachlin, *BNY Mellon*
- Ni Kenney, *Capital One*
- Eric Cope, *UBS*
- Brian Jaggar, *HSBC*
- Nedim Baruh, *JPMorgan*
- Viktoria Korman, Margaret Natale *Wells Fargo*
- Regina Desler, *Northern Trust*
- Rushit Kamani, *State Street*
- Denise Pieck, Angela Shen *Morgan Stanley*



Participants - Guests

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Federal Reserve Board:

- Marco Migueis
- Alex Jiron
- Shooka Saket
- Lars Arnesen
- Mark Buresh
- Jonah Kind

Federal Reserve Bank of Richmond:

- David Cox
- David Aldama Navarrete
- Sonia Karami

OCC:

- Venus Fan
- Benjamin Pegg

FDIC:

- Andrew Carayiannis
- Anjoly David
- Catherine Wood
- Benedetto Bosco



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Thank you. Any questions?

