

This document forms part of the Prudential Regulation Authority Consultation Paper 45/15, December 2015 available at

<http://www.bankofengland.co.uk/pru/Pages/publications/cp/2015/cp4515.aspx>.

In this document, new text is underlined and deleted text is struck through.

FSA075 Pillar 2 Operational risk scenario data

The PRA expects firms to report at least thirteen operational risk scenarios. This should include the ten highest impact non-conduct related scenarios and the three highest impact conduct-related scenarios. The scenarios must be those used for risk management purpose by the firm's board, executive committee or risk committee.

Firms should provide additional supporting information relating to the reported scenarios. This should include relevant documentation on: the underlying rationale for each scenario; the governance of the scenario development process; any supporting data used in developing the scenarios; and any relevant documentation relating to operational risk model development and use.

Scenarios should be ordered from high to low on the basis of their estimated impact on operational risk capital. Estimation of capital for each scenario should be calculated using a standard comparable to a 99.9% confidence interval over a one-year period on a stand-alone basis, ie not accounting for any diversification benefits.

General information

Firm should complete the following mandatory fields:

- the basis of their reporting – UK consolidated, solo consolidation, UK consolidation group or capital sub-group;
- the submission number – firms should enter '1' and increase this number by '1' in case of resubmission;
- the unique 'firm reference number' (FRN);
- the name of the firm;
- the reporting period start and end dates – these dates should coincide with the ICAAP assessment period. In particular, the reporting end date is the balance sheet end date used for purposes of the ICAAP assessment; and
- the reporting currency – firms should report in the currency of their ICAAP i.e. Pounds Sterling (GBP), US Dollars (USD), Euros (EUR), Canadian Dollars (CAD), Swiss Francs (CHF), Japanese Yen (JPY) or Swedish Krona (SEK).

Currency

~~Firms should report in the currency of their ICAAP, ie Sterling, Euro, US dollars, Canadian dollars, Swedish kroner, Swiss francs or Yen.~~

Units

All amounts should be reported in ~~millions~~ absolute values rounded to the nearest whole number in reporting currency.

Where values correspond to percentages, these should be entered as decimal numbers up to 2 decimal places. For example, '70.00%'.

Definitions

All definitions are in line with this supervisory statement ITS on Supervisory Reporting, and CRD IV,⁴ unless otherwise specified.

Event type L1

Operational Risk "Event-Type Category" as defined in CRR Article 324.

Scenario name

Provide name of scenario.

Scenario description

Provide brief description of scenario.

Legal entity/region/business line

Provide information on the primary legal entity/region/business line where the operational risk loss would occur.

Relevant documentation

List the documentation submitted regarding the scenario, including any assessment and rationale.

Frequency and severity distributions & loss distributions

Each scenario must have at least one of the following:

- a) an annual frequency (ie expected number of events per year) and at least two conditional severity impacts (a conditional severity impact is a loss amount given occurrence of an operational risk event) with the associated probability of that event occurring; or
- b) at least two annual operational risk loss amounts with the associated probability of that event occurring.

The two conditional severity impacts (respectively two annual operational risk amounts) must come from the same scenario with the same coherent and realistic story line, which is consistent with the firm's business and operational risk profile. The assessment must be driven by the unit of measure's tail risk assessment and the difference between the two severity impacts (respectively two annual

⁴ Capital Requirements Directive (2013/36/EU and Capital Requirements Regulation (575/2013), collectively 'CRD IV'.

operational risk amounts) could reflect control failures (design and effectiveness) or the macroeconomic environment.

When more than two severity impacts (respectively annual operational risk amounts) have been assessed for a single scenario, all severity impacts (respectively annual operational risk amounts) and their corresponding probability must be provided. When the same scenario is applied to different regions/business lines/organisation units all assessments across all different regions/business lines/organisation units must be provided.

Scenario data examples

If for a particular scenario, an impact assessment has estimated a 1 in 10 year loss at £20 million and a 1 in 50 year loss at £80 million, the PRA expects the firm to complete this data item as follows:

| | |
|---------------------|--|
| Annual Loss 1: | £20 million <u>20,000,000</u> |
| Loss probability 1: | 0.90 (ie 1-1/10) |
| Annual loss 2: | £80 million <u>80,000,000</u> |
| Loss probability: | 0.98 (ie 1-1/50) |

If, for a particular scenario, an impact assessment has estimated the expected number of events to be three per year, and the conditional impact (once an event has occurred) to be a 1 in 10 year event at £20 million and a 1 in 50 year event at £80 million, the PRA expects the firm to complete this data item as follows:

| | |
|-------------------|--|
| Annual frequency: | 3 |
| Severity 1: | £20 million <u>20,000,000</u> |
| Probability 1: | 0.90 (ie 1-1/10) |
| Severity 2: | £80 million <u>80,000,000</u> |
| Probability 2: | 0.98 (ie 1-1/50). |

Annual frequency

The expected number of events per year.

Conditional severity impacts

The amount of operational loss given that an operational risk event has occurred.