

I rischi operativi tra Pillar 1 e Stress Test

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Evoluzione del Pillar 1 OpRisk

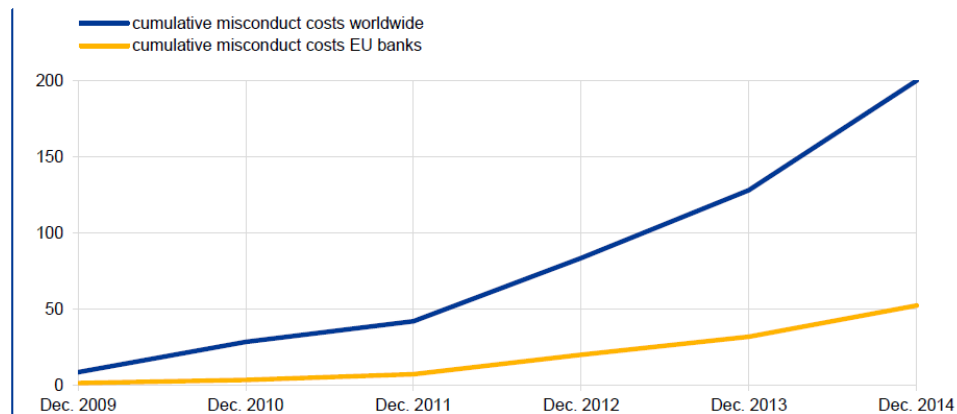
- ✓ Il BCBS ha previsto un significativo cambio di direzione sulla regolamentazione dei rischi operativi ex Pillar 1: rimozione del metodo AMA ed utilizzo di una sua componente basilare (Loss Data Collection) nella metodologia SMA (cfr Convegno
- ✓ Numerosi aspetti sono tuttora in discussione sul tavolo regolamentare di Basilea. Una volta completata tale fase, dovrà avviarsi il processo legislativo per il recepimento in ambito Europeo.
- ✓ Al momento vi sono incertezze sulle caratteristiche finali e sui tempi di rilascio, soprattutto in ambito UE, della nuova regolamentazione sui rischi operativi, nonché sulla data di avvio della stessa, sui contenuti dei possibili "transitional arrangements", etc.
- ✓ Un tema all'attenzione delle Autorità è la gestione nel durante dei Metodi AMA: trade-off tra current regime and expectations dei supervisors
- ✓ I Metodi AMA hanno comunque autonoma rilevanza per le projections delle perdite nell'ambito degli Stress Test

EU-wide ST on op risk: *Rationale*

- ✓ Gli EU-wide ST 2016 include in maniera esplicita operational risk e, in tale ambito, conduct risk
- ✓ Ciò riflette un mandato specifico dell'ESRB, in linea con le analisi svolte nel corso del 2015 e connesso alla rilevanza del fenomeno dei rischi operativi e di condotta osservato negli ultimi anni:

Cumulative misconduct costs for banks since 2009

Extract from ESRB "Report on misconduct risk in the banking sector" (June 2015, € Bln)



Sources: CCP Research Foundation (<http://conductcosts.ccpresearchfoundation.com/index>), Financial Times, Financial Conduct Authority and ESRB calculations.

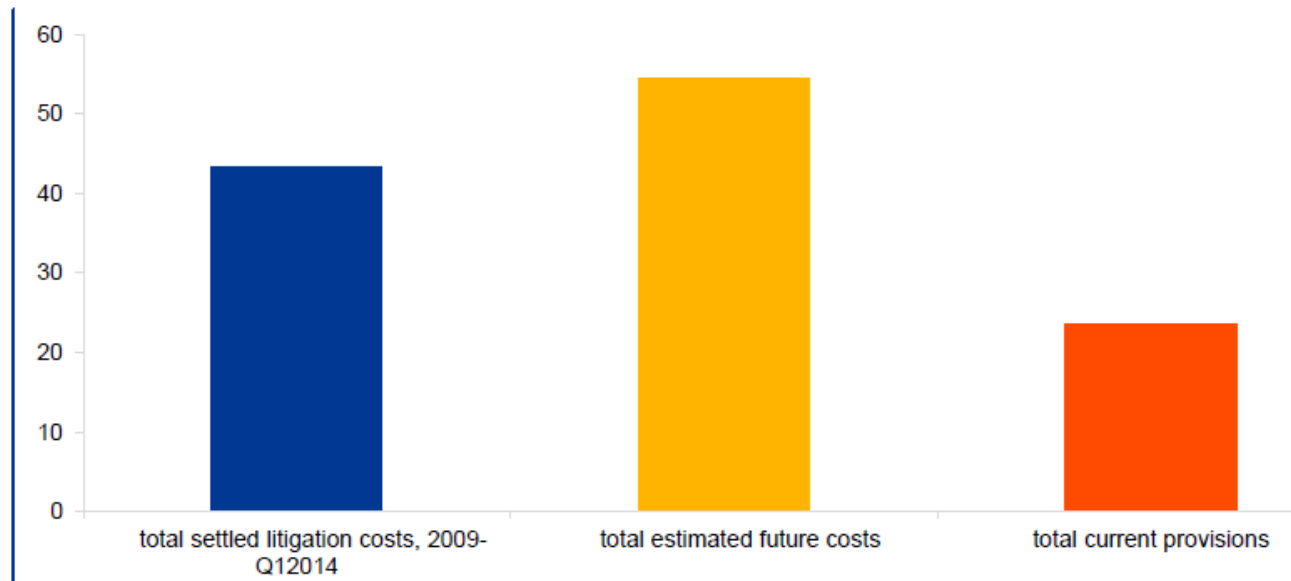
Notes: Bank of America, Citigroup, Goldman Sachs, Morgan Stanley, Wells Fargo, Ally financial, SunTrust and JP Morgan Chase & Co. represent US banks, while EU banks are represented by Barclays, BNP Paribas, HSBC, Lloyds Banking Group, Royal Bank of Scotland, Société Générale, Deutsche Bank, ING, Rabobank, Standard Chartered and Santander. Misconduct costs of EU and US banks arising from legal action outside the European Union/United States and the penalties of banks from other countries account for EUR 44 billion.

EU-wide ST on op risk: *Rationale*

- ✓ Il report dell'ESRB mette anche in evidenza come i costi futuri attesi da conduct risk per le G-SIBs siano notevolmente più alti dell'attuale ammontare delle *provisions*

Misconduct costs and provisions of EU G-SIB

Extract from ESRB "Report on misconduct risk in the banking sector" (June 2015, € Bln)



ESRB: Section 5: *As with other risks, in principle, expected losses from known misconduct issues should be provisioned for and included in the profit and loss account, whereas unexpected losses should be quantified and covered by capital. **Recent manifestations of misconduct risk have highlighted deficiencies in both provisioning and capital requirement calculations.** Banks are making provisions for future misconduct costs (charts 5 and 6). But their **provisioning has often been too little and too late**, given the magnitude of the penalties applied and the limitations of provisioning*

Metodologia EBA su oprisk

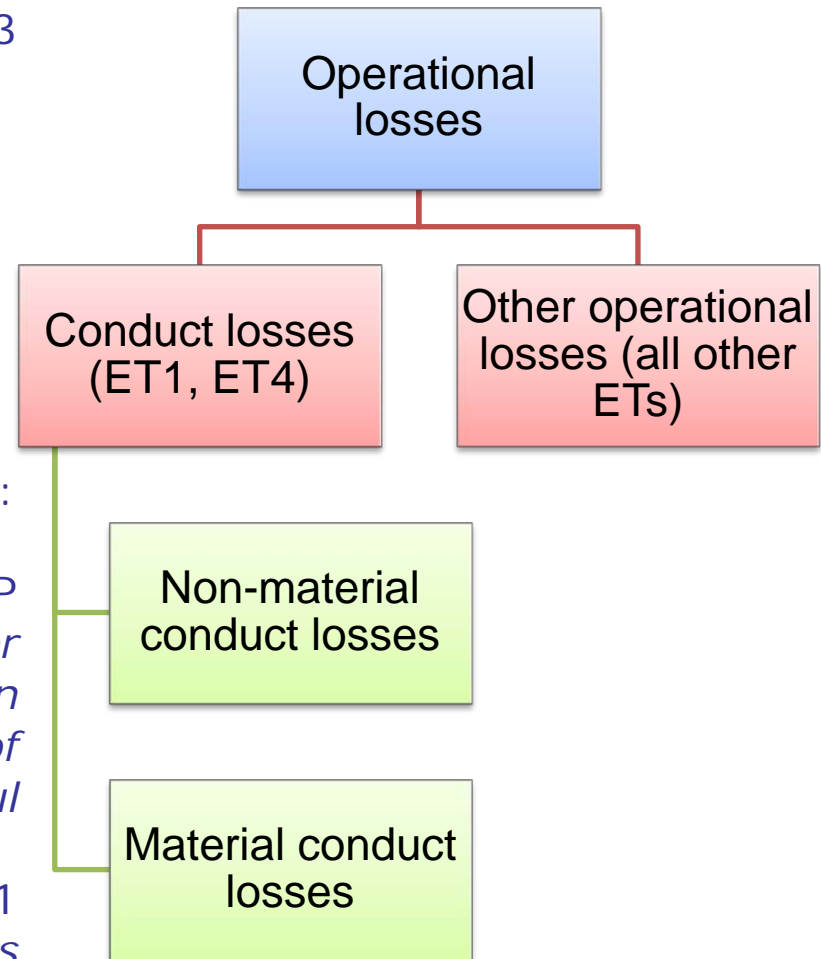
✓ Operational risk is broken down in 3 subcategories:

- Other operational losses
- Non-material conduct losses
- Material conduct losses

✓ Threshold for materiality of a conduct loss: **10bps of end-2015 CET1.**

✓ Conduct risk is defined as in the SREP Guidelines (Par. 253-257): *"The current or prospective risk of losses to an institution arising from an inappropriate supply of financial services, including cases of wilful or negligent misconduct"*

✓ Conduct losses are approximated by ET1 (*"Internal Fraud"*) + ET4 (*"Clients, products and business practices"*) of the COREP template (C017). Other operational losses by all the other Ets. Exceptions possible, if fully justified



Metodologia EBA su oprisk

- ✓ For each of the 3 subcategories, banks report aggregated historical losses (2011-2015 end-years) and projected losses (2016-2018 end-years) in the template (CSV_OR_GEN) at a consolidated level, irrespective of the operational risk approach applied. AMA and TSA banks report historical losses also by loss-size-based buckets (€ 10 k – 20 k; 20k - 100k; 100k - 1,000k; >1,000 k)

← Analoga segmentazione dei QIS

- ✓ All banks report the 25 largest (historical and projected) material conduct losses individually in a dedicated template (CSV_OR_CON).

I material events vanno mappati alle SREP sub-categories. In aggiunta alle 8 indicate nello SREP, ulteriori 5 sub-categories di misconduct (+ una residuale) sono state previste:

- ✓ j. Violation of anti-money laundering and counter financing terrorism rules
- ✓ k. Breach of financial and trade sanctions
- ✓ l. Breach of tax-compliance rules and tax avoidance on behalf of third parties
- ✓ m. Breach of regulation governing competitiveness (collusion of market prices)
- ✓ n. Insider trading
- ✓ o. Other

Loss Projections on P&L

- ✓ Two approaches are envisaged:
 - **Qualitative approach** (for Material Conduct losses only or if requested by the supervisors). Banks have to estimate future costs by evaluating a range of settlement outcomes for each issue and assigning probabilities to these outcomes
 - **Quantitative approach** (for Non Material conduct losses and for Other operational losses). Banks have to estimate future costs by using their own methods.
- ✓ Non Material conduct losses and Other operational losses are subject to **floors**. The floors in baseline and adverse are the average historical losses times certain factors, smaller for Other Operational Losses than for Non Material Conduct losses:

	Non-material conduct risk	Other operational risk
Baseline	1	0.8
Adverse	2	1.5

← I factors on OtherOpRisk sono minori perche' non sono possibili esclusioni di Material events

- ✓ Fall-back option: it applies in the case a bank is unable to report historical losses or in the case that the projected losses for the material events are not deemed appropriate by the supervisors. The P&L projections are based on a factor applied to the end-2015 Relevant Indicator (0.06 in the baseline; 0.15 in the adverse)

Projections on RWAs

- ✓ Total RWAs for operational risk in each year of the projection horizon do not have to fall below the actual minimum capital requirements for operational risk, as reported by the bank at the beginning of the exercise (31 December 2015) → **Obiettivo: evitare che banche BIA e TSA possano beneficiare in termini di RWA projections della riduzione del relevant indicator nel periodo 2016-2018**
- ✓ AMA banks have to take into account the flow of losses projected in their internal models to project RWA for operational risk (including both conduct risk and other operational risks), both for the baseline and the adverse scenarios.

Quality Assurance nella metodologia EBA

- ✓ La metodologia EBA conferisce particolare rilevanza alla QA delle Supervisory Authorities sui dati di perdita, in particolare su quelli relativi ai material conduct risk:

360. The quality assurance by supervisors of banks' projections is of special relevance in the case of conduct risk, given the high variability of the potential outcomes of the issues when settled, especially the material ones. ... Banks may also be asked by their competent authorities to provide evidence regarding issues that are widespread in the industry and have resulted in losses for other institutions, which could be of relevance for them based on their business activities. When quality assuring bank's projections, competent authorities will take into account not only their supervisory knowledge of the particular bank, but also a comparison to the sector and the impact of similar issues in the bank's peer group.

*381. Projections of operational risk capital requirements **will be challenged** by competent authorities during the quality assurance process.*

Quality Assurance nella ECB Guidance

The *ECB Guidance to banks* (Feb 16) richiede un'apposita Explanatory note on op risk e fornisce ulteriori considerazioni ed esempi sulla Quality Assurance delle projections.

Material cases:

- ✓ Supporting documentation requested (judgments, reports to Committees and/or Supervisors, methodology)
- ✓ Prudential estimates are expected to exceed provisions, unless there is already a high degree of certainty
- ✓ For recently discovered cases, banks may use external information, including settlement costs of comparable cases
- ✓ Timing of known loss events: provisions to be projected when events are expected to be settled beyond 2018

Quality Assurance nella ECB Guidance

Projection in P&L: Non-Material conduct & Other Op Risk

✓ 50th and 90th percentiles of the aggregated distribution also for non material conduct risk

3 suggested approaches:

LDA: Need to demonstrate appropriateness of using LDA for lower than 99.9 percentiles

Scenario: AMA banks should decide whether or not the same AMA scenarios could be used

Regression Models: Subject to clear relationship between losses and macro-economic factors

Projection of RWA for AMA banks: Banks are expected to include projected losses (for both conduct and other op risk) in the internal loss database used to calculate op risk capital at year end¹¹

Quality Assurance: implementation issues

Validation of historical data 2011-2015. Broad alignment with COREP data (Table C017 "OPR Details"), but:

- Larger scope of ST (AMA, TSA, BIA) than COREP (AMA, TSA)
- Different reporting threshold (ST: 10k, COREP: bank's threshold)
- In each reporting year, COREP includes losses not reported in previous years. In ST these losses are reported in the correct year: single year's view (COREP) vs across years view (ST)
- Netting of negative & positive figures in ST: ET1,4 and ET2,5,6,7

Validation of P&L and RWA projections:

- Possible use of benchmarks, in line with the EBA methodology (Par. 360)
- Reverse engineering of P&L projections on op risk from published data is very difficult and numbers obtained by that means are highly uncertain.

Considerazioni conclusive

- ✓ L'esplicita inclusione di operational risk (incluso conduct risk) nel 2016 EU-wide ST exercise è un significativo passo in avanti rispetto a quanto effettuato nel 2014 EU-wide ST exercise (semplificata metodologia per RWA, massima flessibilità per P&L):

2014 EU-wide ST - Operational risk

210. Banks are invited to estimate their operational risk P&L impact in accordance with the macro-economic scenarios and reduce their projected income respectively.

211. Capital requirements for operational risk are taken into account in the exercise by computing a proxy of year-on-year changes in operating profit of the participating institutions. Stressed capital requirements are given as capital requirement for operational risk in previous period plus 15% of year-on-year absolute change in operating profit. Capital requirements for operational risk cannot fall below the value as of year-end 2013.

Considerazioni conclusive

- ✓ L'ancoraggio alle perdite storiche, da un lato, e la presenza di una metodologia di QA delle projections, dall'altro, consentono di ridurre in maniera significativa possibilità di incoerenze (e arbitraggio) e di garantire una maggiore omogeneità di trattamento.
- ✓ In virtù di tali innovazioni, si riduce sensibilmente il gap tra le tecniche di esecuzione degli stress test su operational risk in EU e in USA (cd DFAST 2016, basato sulla media di due metodi: historical simulation method and panel regression model)
- ✓ Primo vero esercizio di ST su op risk in EU. Input e feedback dai vari stakeholders (es. Banche, JSTs, NCAs) utili per successivi sviluppi e miglioramenti
- ✓ 2016 EU-wide ST permette di valutare, da un diverso punto di osservazione, la reattività e robustezza dei metodi AMA. Può avere pertanto un ruolo di supporto per valutazioni ex Pillar 1

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Grazie per l'attenzione

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