BACKGROUND INFORMATION REGARDING THE 2004 LDCE

In 2001 and 2002, the Basel Committee on Banking Supervision performed surveys of banks' operational risk data. In a repeat of these exercises, the U.S. federal bank and thrift regulatory agencies are now seeking to collect more recent data from the banking sector on operational risk. The 2004 Loss Data Collection Exercise [LDCE] will ask respondents to provide data on individual losses through June 30 or September 30 of 2004, and will enable the agencies to better assess the potential impact of Basel II for U.S. banks and thrifts.

The primary purpose of the 2004 LDCE is to aid supervisors in understanding the results of the 2004 Quantitative Impact Study [QIS4], which will assess the impact of Basel II on capital for U.S. banking organizations. More specifically, the LDCE will allow supervisors to understand the completeness of the internal loss data on which the QIS4 results are based. The LDCE will also allow supervisors to understand to what extent the QIS4 results (and any cross-firm variation in these results) depend on internal data, and to what extent they may be driven by other factors such as banks' choice of modeling approaches or their incorporation of qualitative risk assessments.

All data received will be treated with complete confidentiality. The agencies intend to provide feedback to the industry on the results of the survey. However, this will be done on a basis that avoids any disclosure of the identities of the participating institutions or of the individual loss events.

Although this exercise is a repeat of similar exercises carried out in 2001 and 2002, there are a number of important changes to the scope and content of this year's LDCE. These include:

1. The 2004 LDCE and the 2004 QIS are being undertaken only by U.S. regulators. The previous LDCE's and QIS's were undertaken by various regulators worldwide.

2. The 2004 LDCE requests all loss data that underlie the results reported in QIS4, whereas the earlier exercises requested only one year's worth of data.

3. The 2004 LDCE allows respondents to use their internally-defined business lines and event types, whereas the 2002 LDCE required them to use standardized business lines and event types.

INSTRUCTIONS FOR THE 2004 LDCE

1. **Respondents are asked to complete the LDCE at their earliest convenience, preferably by November 22, 2004. However, consistency with QIS4 should take precedence over timeliness of LDCE submission**. It is important that the internal loss data submitted to this LDCE be identical to the internal loss data that will underlie the results reported to QIS4. (Note. A bank may wish to include data in the LDCE that will not be applied to the QIS4 calculations. For example, the LDCE data might include smaller losses or losses from earlier years where data completeness is uncertain. This would be acceptable provided that such additional datapoints are clearly indicated, as discussed below.) If a bank's internal data are still under revision at the time of this exercise, we would encourage the institution to defer submitting data to the LDCE until consistency with QIS4 is more certain.
2. **Data can be input directly into this Excel workbook**. Alternately, loss data can be provided as a comma separated value (*.csv) file, with the same column layout and headings as in this workbook.
3. **All data should be formatted as either text or numeric.** Date formats such as Jan-08-02 should not be used.
4. **All numeric variables should be reported in ones - not thousands.** For example, a one million dollar loss would be reported as 1000000.
5. **All monetary amounts should be reported in U.S. Dollars.** Any incorporation of exchange rates should be consistent with the quantification results and methods that will be reported in QIS4.
6. **Dates:** In order to ensure consistency with responses to QIS4, respondents should provide loss data for the same dates as the data that will underlie their QIS4 submissions.
7. **Responses:** Responses should be sent to the primary regulator's chief resident examiner (e.g., central point of contact or examiner-in-charge). Responses should also be sent to the Federal Reserve central point of contact (where applicable).
8. **Questions** regarding data submission should be directed to Preston Thompson at 617-973-3143 (email: preston.thompson@bos.frb.org) or to Patrick de Fontnouvelle at 617-973-3659 (email: patrick.defontnouvelle@bos.frb.org).

INSTRUCTIONS FOR THE 2004 LDCE

WORKSHEET A: INDIVIDUAL LOSSES

1. This sheet requests data on individual losses and recoveries.
2. Losses should include the following costs which result from the event: all out of pocket expenses connected with the event, but not investment programmes, opportunity costs or revenue foregone. For example, if a computer fault results in a break in trading and a position moves against the bank in the meantime, then included would be: losses resulting from unwinding the position, any payments to clients, costs of employing a consultant specifically engaged for this problem and overtime payments. If, in the light of the event, the bank decided that an investment in hardware is needed, then this would not be included in the loss.
3. No specific loss threshold is being required for this exercise. However, the thresholds used here should not exceed those used for QIS4. A lower threshold may also be used, provided that worksheet C and column 9 of worksheet A are filled out appropriately.
4. Corporate center losses and losses that impact more than one business line should be reported as in the raw data that will underlie the QIS4 results. For example, corporate center losses may be apportioned across business lines using internal management accounting techniques. In this case, please use the same reference number to report the loss in each of the business lines affected. Similarly, loss events that affect more than one business line but that have not been allocated to the corporate center should be given the same reference number. If such losses are not apportioned across business lines, then their nature should be reflected in the data entry for the business line column. (For example, corporate center losses could be denoted by entering "Corp." in the business line column, and losses impacting more than one business line could be denoted by entering "Mult." in the business line column.)
5. For each loss, please enter:
- In column 1, a reference number. The reference number should be unique, except as indicated in instruction 4 immediately above.
- In column 2, the year of the loss.
- In column 3, the calendar quarter of the year when the loss occurred, expressed as a number between 1 and 4. This field is required only if the month of the loss is not available.
- In column 4, the month when the loss occurred (if available), expressed as a number between 1 and 12.
- In column 5, the day when the loss occurred (if available), expressed as a number between 1 and 31.
- In column 6, the internal business line where the loss was incurred. Business lines should be identical to those provided in QIS4.

INSTRUCTIONS FOR THE 2004 LDCE

- In columns 7, the internal loss event type. Event types should be identical to those provided in QIS4.
- In column 8, Y if it is a corporate center loss that was allocated to a business line, N otherwise.
- In column 9, Y if the loss will also be included in the QIS4 data set, N otherwise. (The term "QIS4 data set" refers to those internal loss data points that will be used to estimate the operational risk exposure reported in QIS4. QIS4 will request only the risk exposure estimates - not the data itself.)
- In column 10, the total loss amount, that is, the amount lost before any insurance recoveries.
- In column 11, the insurance recovered within one year of the loss occurrence.
- In column 12, the code of the legal entity where the loss occurred. Note: it is not necessary to provide the legal entity names or any other identifying information associated with the legal entity codes.

WORKSHEET B. REPORTING THRESHOLDS FOR LDCE DATA

1. This sheet requests data on the reporting thresholds for the data provided in the "Individual Losses" worksheet. Information regarding data completeness is also requested.
2. Information is requested by the same internal Business Lines and Event Types reported in the "Individual Losses" worksheet. However, it would be acceptable to provide data only for the "All ETs" column ("All BLs" row) if this information does not vary across Event Types (Business Lines).
3. Five specific pieces of information are requested. These are:
Panel a: The cutoff used to report loss data.
Panel b: Whether the loss data above the cutoff are complete.
Panel c: If data above cutoff are not complete, an estimate of the % of actual losses (severity) reported. (20% enter 20, NI for no information, or NA for not applicable)
Panel d: If data above cutoff are not complete, an estimate of the % of actual losses (frequency) reported. (20% enter 20, NI for no information, or NA for not applicable)
Panel e: A description of how information regarding data completeness was obtained.

WORKSHEET C. REPORTING THRESHOLDS FOR QIS DATA

1. This sheet should be completed only if there is a significant difference between the completeness of the LDCE data (all losses reported on worksheet A) and the completeness of the QIS data (those losses with a 'Y' in column 9 of worksheet A).
2. This worksheet requests information regarding completeness and reporting thresholds for the QIS data.
3. This worksheet would generally be completed if the LDCE data spanned more years than the QIS data, and if data for the additional years in the LDCE data were incomplete. This worksheet would also be completed if the LDCE data included smaller loss amounts than the QIS data, and if data for the smaller loss amounts were incomplete.

INSTRUCTIONS FOR THE 2004 LDCE

WORKSHEET D. OPERATIONAL RISK EXPOSURE INFORMATION

1. In Section 1, report the operational risk exposure calculated based purely on quantitative methods, where feasible. The answer should be identical to that provided in cell G113 of the operational risk QIS worksheet.

2.a Respondents should indicate in Question 2.a whether operational risk exposure is measured separately by internal business line and/or internal event type. Indicate "yes" or "no" as appropriate.

2.b For respondents that answered "yes" in the above question, complete Question 2.b as follows:

- Unit of measurement. Report the operational risk exposure calculated at each unit of measurement. For example, some institutions estimate a unique loss distribution for each business line/loss type combination while others may estimate loss distributions that span multiple business lines or events types. The reporting should be consistent with the institution's current analytical framework. Do not include any diversification effects calculated at the consolidated level. Do not include any qualitative adjustments. Report the operational risk exposure calculated based purely on quantitative methods, where feasible.

- Data sources used. Indicate what data sources [Internal Data (I), External Data (E), or data derived from Scenario Analyses (S)] contributed to each operational risk exposure reported. For example, if the institution used internal data supplemented by scenarios for a particular unit of measurement, then report (I)(S).

WORKSHEET E. BUSINESS LINE AND EVENT TYPE MAPPINGS

1. This sheet requests the mapping between the internal business lines and event types used on worksheets A through D and the standard Basel business lines and event types, as well as exposure information by business line.
2. The internal business lines and event types reported here should be identical to those reported on worksheets A through D.
3. The business line mapping should be completed on a best effort basis, since it is not currently envisioned that any business line mapping will be required.
4. Exposure Indicators - Report the following information for each business line reported.
Assets: Retail and commercial banking business lines: on-balance sheet assets as of 6/30/2004 or 9/30/2004. Agency Services /Custody business line: assets in custody for external clients as of 6/30/2004 or 9/30/2004. Asset Management business line: assets under management as of 6/30/2004 or 9/30/2004.
Number of employees: Actual number (not budgeted number) of permanent employees and contractors > 6 months duration on payroll, as of 6/30/2004 or 9/30/2004. Employees in centralized activities should be allocated to business lines according to management accounting policies.

INSTRUCTIONS FOR THE 2004 LDCE

Gross income = net interest income + net non-interest income (comprising (i) fees and commissions receivable less fees and commissions payable, (ii) the net result on financial operations, and (iii) other income). It is intended that this measure should be gross of any provisions (e.g. for unpaid interest). Gross income should exclude extraordinary or irregular items and income derived from insurance. Realized gains/losses from the sale of securities held in the banking book should also be excluded from gross income. Banks may report Gross Income and its components according to the GAAP standards of their home country. Gross income should be reported for the 12 months ending 6/30/2004 or 9/30/2004.