RESCINDED

Office of Thrift Supervision
Department of the Treasury

Thomas A. Barnes
Deputy Director, Examinations, Supervision, and Consumer Protection

1700 G Street, N.W., Washington, DC 20552 • (202) 906-5650

This rescission applies to the transmitting document only and not the attached interagency guidance. Refer to (OCC 2011-21) for the status of the attached interagency guidance.

June 3, 2011

MEMORANDUM FOR: **CHIEF EXECUTIVE OFFICERS**

FROM: Thomas A. Barnes, Deputy Director
Examinations, Supervision, and Consumer Protection

Thomas A. Barnes

SUBJECT: Interagency Guidance on Advanced Measurement Approaches for Operational Risk

The Office of Thrift Supervision (OTS), along with the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (the Board), the Federal Deposit Insurance Corporation (FDIC), (collectively, the agencies), is issuing the attached guidance on the Advanced Measurement Approaches (AMA) for Operational Risk. The guidance is intended to assist banking organizations in implementing an effective AMA framework, in addressing certain common implementation issues and challenges, and in providing key considerations for addressing these challenges.

Background

On December 7, 2007, the agencies issued the final rule, “Risk-Based Capital Standards: Advanced Capital Adequacy Framework-Basel II” (advanced approaches rule). The advanced approaches rule provides a risk-based regulatory capital framework that encompasses requirements for credit, operational, and market risk. For operational risk, the advanced approaches rule requires qualifying core banks and permits other qualifying banks to use advanced measurement approaches (AMA) to calculate risk-based capital requirements for operational risk.

The purpose of the AMA is to enhance operational risk measurement and management. The AMA framework requires effective governance, risk capture and assessment, and quantification of operational risk exposure; however, banks have flexibility to develop operational risk measurement and management programs, processes, and tools to support the framework that are appropriate relative to banks’ activities, business environment, and internal controls. As new methods and tools are developed, the agencies anticipate that the operational risk discipline will continue to mature and converge toward a narrower range of effective risk management and measurement practices.

Summary

This interagency guidance discusses certain common implementation issues, challenges and key considerations for addressing these challenges in order to implement a satisfactory AMA framework. This guidance focuses on the combination and use of the four required AMA data elements – internal operational loss event data, external operational loss event data, business environment and internal control factors (BEICFs), and scenario analysis. Given some of the unique challenges with scenario analysis as it relates to the AMA, this data element is discussed in greater detail. Governance and validation also are discussed in this guidance given their importance in ensuring the integrity of a bank's AMA framework.

This guidance addresses certain aspects of the minimum risk-based capital requirements for operational risk and is not intended to address the treatment of operational risk in a bank's internal capital adequacy assessment process.

For further information, please contact Eric Hirschhorn (OTS), Senior Financial Economist, at (202) 906-7350.

Attachment: [Interagency Guidance on the Advanced Measurement Approaches for Operational Risk]