

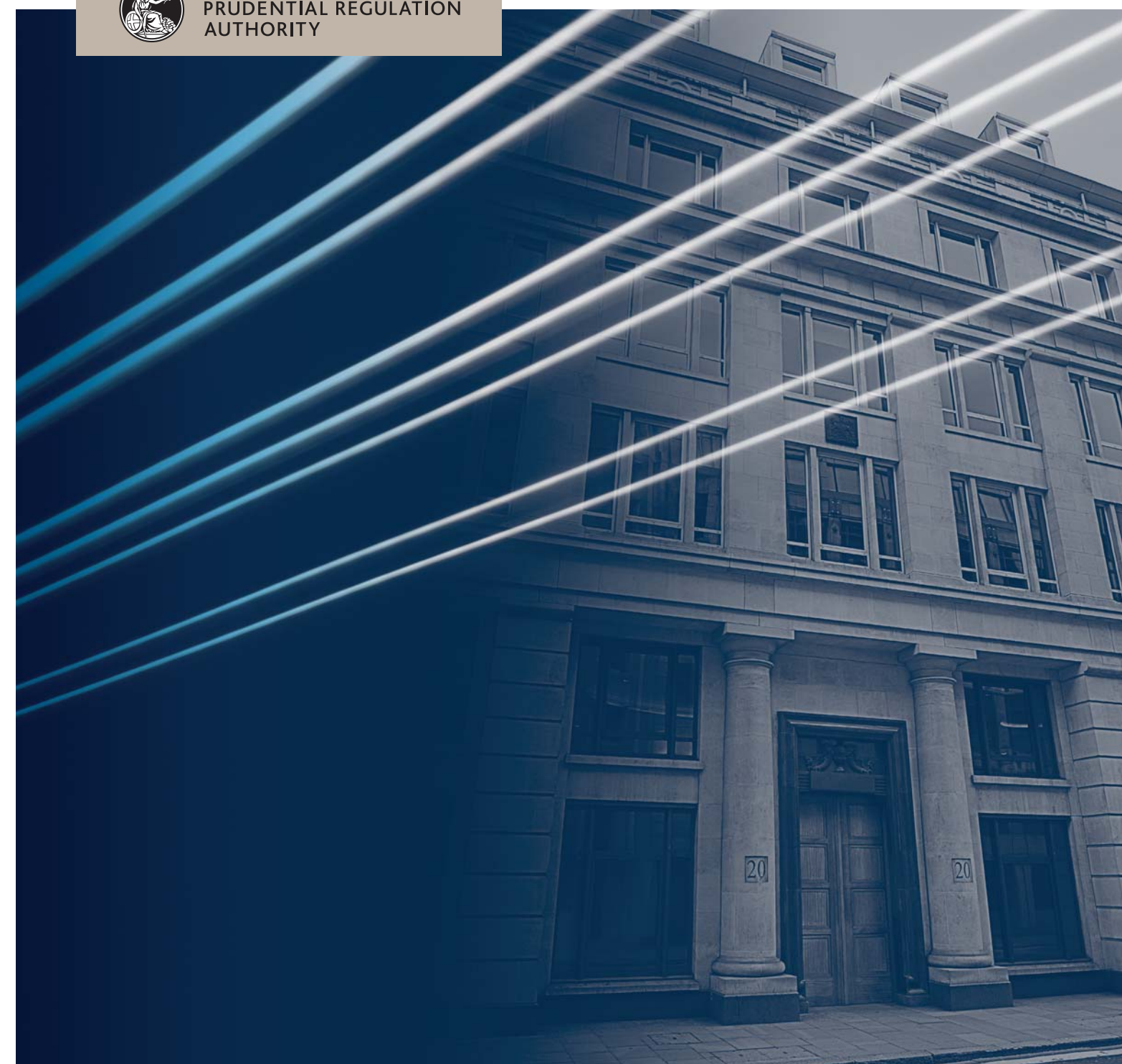
Supervisory Statement | SS14/13

Operational risk

December 2013



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



Prudential Regulation Authority
20 Moorgate
London EC2R 6DA

Prudential Regulation Authority, registered office: 8 Lothbury, London EC2R 7HH.
Registered in England and Wales No: 07854923



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1 Introduction

1.1 This supervisory statement is aimed at firms to which CRD IV applies.

1.2 This statement sets out the Prudential Regulation Authority's (PRA's) expectations on the extent to which the Advanced Measurement Approach (AMA) should capture the firms' operational risks where the firm has, or is about to, implement AMA. This is relevant where the AMA is applied across only part of a firm's operations and is used in conjunction with either the Basic Indicator Approach (BIA), or the Standardised Approach (TSA). This statement also sets out the PRA's expectation of SIF attestation of the firm's compliance with AMA standards.

1.3 This statement should be read in conjunction with CRR Article 314(3) and the high-level expectations outlined in *The PRA's approach to banking supervision*.⁽¹⁾

2 The PRA's expectations in relation to AMA

2.1 A firm may use an AMA in combination with either the BIA or TSA provided it obtains permission from the PRA.

2.2 In granting such permission, the PRA is required by CRR Article 314(3) to impose the following conditions when the AMA is used in combination with BIA or TSA:

- (a) on the date of first implementation of an AMA, a 'significant' part of the institution's operational risk are captured by that Approach; and
- (b) the institution to commit to apply the AMA across a 'material' part of its operations within a time schedule approved by the PRA.

2.3 For the purposes of these conditions, the PRA considers that:

- a 'significant' part of operational risk is approximately 50% or more; and
- a 'material' part of its operations is around 85% (or more).

3 Annual Significant Influence Function (SIF) attestation of Operational Risk Advanced Measurement Approach

3.1 The PRA expects an appropriate individual in a SIF role to provide to the PRA, on an annual basis, written attestation that:

- (a) the firm's AMA (for which it has received a permission) comply with the requirements in Part 3 Title III of the CRR, and any applicable PRA operational risk supervisory statements; and
- (b) where the firm's AMA has been found not to be compliant, a credible plan for a return to compliance is in place and being completed.

3.2 Firms should agree with the PRA the appropriate SIF for providing this attestation, noting that the PRA would not expect to agree more than 2 SIFs to cover the firm's operational risk AMA as described in Part 3 Title III of the CRR.

(1) www.bankofengland.co.uk/pr/Pages/supervision/approach/default.aspx.