

**Meeting Between Staff of the Federal Reserve System, Federal  
Deposit Insurance Corporation, and Office of the Comptroller of the  
Currency and Representatives of ORX  
January 10, 2024**

**Participants:** Marco Migueis, Alex Jiron, Alice Moore, Anya Kleymenova, Lars Arnesen, Shooka Saket, Mark Buresh, and Jonah Kind (Federal Reserve Board); David Cox, David Aldama Navarrete, Sonia Karami, Yeonjoon Lee, and Chelsea Van Manen (Federal Reserve Bank of Richmond)

Andrew Carayiannis, Anjoly David, Catherine Wood Kyle McCormick, Rachel Room, and Lauren Brown (Federal Deposit Insurance Corporation)

Benjamin Pegg and Venus Fan (Office of the Comptroller of the Currency)

Luke Carrivick, John Bosnell, Martin Monakhov, Roland Kennett, and Sarah Astill (ORX); Regina Desler (Northern Trust); Yasin Benzawi (Barclays); Brian Jaggar (HSBC); Eric Cope (UBS); Rushit Kamani (State Street); Margaret Natale (Wells Fargo); Nedim Baruh (JPMC); Ni Kenney (Capital One); Michael Rachlin (BNYM); Ryan Thompson (US Bank); Angela Shen Ross (Morgan Stanley)

**Summary:** Staff of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency met with representatives of ORX and member companies (collectively, ORX) regarding the agencies' Basel III endgame notice of proposed rulemaking (Basel III endgame proposal). The ORX representatives shared their views related to the proposed operational risk capital requirements under the Basel III endgame proposal, as described in the attached presentation.

Attachment

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# ORX community technical discussion on Basel III endgame





# Purpose

The purpose of the meeting is to provide an opportunity for technical discussion on the operational risk aspects of the Basel III end game. In particular, the intent is to focus on a level of detail which might not have been explicitly covered in other discussions, or responses that will be shortly submitted.

The discussion will be informal and constructive.



# Introduction – ORX view

There is a broad acceptance across the ORX membership that since the Basel III rules are a standardized approach there will inevitably be compromises in its design. A couple of those are that:

- A loss component (LC) that assumes a consistent relationship between expected and unexpected loss (factor of 15)
- Size as a proxy for complexity (as seen in the increasing percentages in the BI)

There are several details in the Basel III endgame proposal for operational risk which deviate from the implementations seen in other jurisdictions. In particular :

- Inclusion of internal loss data, furthermore in a way such that ILM only acts to increase.
- A broader definition of timing losses in comparison to typical practice
- A proposal for M&A to reflect the loss profile of the acquiring entity
- A potential for conservatism via the Stressed Capital Buffer – although this is less about the Basel III endgame, rather the related capital regulations.

In combination they may contribute to a higher capital calibration, but there are levers that can counterbalance this and remain within the same design and spirit of the approach. For example, the % and thresholds in the BI, the length of historical data, the implementation of ILM, some of the details around losses.

**The agenda will focus on data (the inputs), the methodology, and some practical points on implementation. There will also be time for questions on the ORX benchmark report, and other topics of interest.**



# Outline Agenda

## 1. Technical data - inputs

- a. **Timing losses.** Timing loss proposal goes beyond typical practice, expanding the definition of a loss to non-financial impacts. The wording also unclear, particularly the reference to equity capital. There is an opportunity for greater clarity, and a clearer concept of materiality.
- b. **Estimated losses for M&A entities.** Practicality and logic of estimating internal losses of an acquired entity based on the materiality and type of the acquisition.

## 2. Calculation methodology

- a. **Flooring the ILM at 1.** Reasoning for doing this. Incentives it creates, or indeed removes. Disadvantages it introduces.
- b. **Calibration of the Services Component.** This component is more significant for US banks than other jurisdictions (see ORX capital benchmarking studies since 2018), and an area of disparity between the BIC and LC. In the absence of changes to the ILM, suggestions are to modify its design, or restrict this in some way, e.g. capping as a function of the overall BI.

## 3. Implementation

- a. **Retrospective vs go forward.** For changes in data (e.g. M&A, timing) what will the biggest challenges be if rules are retrospective?
- b. **Interplay with other regulations.** Conservativeness due to the stressed capital buffer. CCAR. Loss reporting in Schedule E vs Basel III endgame.
- c. **Loss data.** If an amendment is made to fix ILM = 1 (as we see in some other jurisdictions), what is the view on the impact this will have on the collection of loss data?

## 4. Questions on the ORX report into standardized capital

In October ORX published a report that analysed the standardised approaches for regulatory capital that have been available over the last 21 years and compare to various implementations of the new Standardised Approach.

## 5. Any other questions from the guests – particularly those based on feedback to date



# Participants

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**Luke Carrivick,**  
Executive Director



**Roland Kennett,**  
Membership Director



**Sarah Astill,**  
Head of Risk Measurement



**John Bosnell,**  
Standards Senior Manager



**Martin Monakhov**  
Research Manager

# Participants – ORX Members

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- Yasin Benzawi, *Barclays*
- Michael Rachlin, *BNY Mellon*
- Ni Kenney, *Capital One*
- Eric Cope, *UBS*
- Brian Jaggar, *HSBC*
- Nedim Baruh, *JPMorgan*
- Margaret Natale, *Wells Fargo*
- Regina Desler, *Northern Trust*
- Rushit Kamani, *State Street*
- Angela Shen, *Morgan Stanley*
- Ryan Thompson, *US Bank*



# Participants - Guests

## Federal Reserve Board:

- Marco Migueis
- Alex Jiron
- Shooka Saket
- Lars Arnesen
- Mark Buresh
- Jonah Kind
- Anya Kleymenova
- Alice Moore

## Federal Reserve Bank of Richmond:

- David Cox
- David Aldama Navarrete
- Sonia Karami

- Yeonjoon Lee
- Chelsea Van Manen

## OCC

- Venus Fan
- Benjamin Pegg

## FDIC:

- Andrew Carayiannis
- Anjoly David
- Catherine Wood
- Kyle McCormick
- Rachel Romm
- Lauren Brown





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## Thank you. Any questions?

