Proposal: 1813 (AG64) Reg H, Q, LL & YY-Regulatory Capital Rule: Amendments to LBOs and Banking Organizations

Description:

Comment ID: 155735

From: Jonah Jameson

Proposal: 1813 (AG64) Reg H, Q, LL & YY-Regulatory Capital Rule: Amendments to LBOs and Banking Organizations

Subject: R-1813 Regulatory Capital Rule: Amendments Applicable to Large Banking Organizations and to Banking

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Comments:

Date: Oct 31, 2023
Proposal: Regulatory Capital Rule: Amendments Applicable to Large Banking Organizations and to Banking Organizations with Significant Trading Activity [R-1813]
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Your comment: Comment on the operational risk capital requirement: There has been substantial criticism of the operational risk standardized approach since it was first issued by the Basel Committee due to it being backward-looking and not tailored for the risks of specific businesses. All the inputs into the calculation are based on historical figures and the formula is calibrated based on data from the 2000s and the 2010. Unfortunately, given the variety and evolving nature of operational risk, it is not possible to develop a regulatory formula that would be truly forward-looking. Also, the calibration is top-down and was not specifically designed for any specific line of business. Developing a standardized approach that would be appropriate for each type of risk is likely impossible. Instead of basing operational risk capital requirements just on a supervisory formula, regulators should continue to require banks to model their specific operational risks, with a robust supervisory process to assess the reasonableness of such models. Operational risk capital requirements can be simplified relative to the existing AMA, but having operational risk requirements tie to banks' operational risk management is critical to ensure that emerging operational risks can be appropriately considered. A supervisory standardized approach could be used to benchmark results or perhaps -; using a lower calibration than the proposal -; as a floor for operational risk capital requirements. But a supervisory formula should not form the basis for operational risk requirements because it cannot appropriately account for emerging risks and would not provide a connection between operational risk management and operational risk capital.