

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

Description:

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Comment ID: 157207

From: Melvin M. Matthews

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: Jan 05, 2024

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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: Questions 75 and 76: The final rule should retain the internal loss multiplier. As is cited in the proposal, research has shown that past operational risk losses are predictive of future operational risk losses. So, including the internal loss multiplier will likely make the operational risk capital requirement more sensitive to risk. More importantly, including the internal loss multiplier in the capital requirement is certain to result in banks trying hard to reduce their operational losses to keep their capital requirements low. Including the internal loss multiplier would incentivize banks to keep their operational risk low. To embrace this risk sensitivity and these incentives for reducing operational risk, the final rule should also remove the floor of one to the internal loss multiplier. Banks with a track record of low operational losses should be subject to a lower operational risk requirement. This will preserve their incentives for improving their operational risk controls.