TO THE OFFICER IN CHARGE OF SUPERVISION
AT EACH FEDERAL RESERVE BANK

SUBJECT: Supervisory Guidance on Implementation Issues Related to the Advanced Measurement Approaches for Operational Risk

The Board of Governors of the Federal Reserve System and the other federal banking agencies\(^1\) are issuing the attached Interagency Guidance on the Advanced Measurement Approaches for Operational Risk to address and provide clarity on implementation issues related to the advanced measurement approaches (AMA) in the agencies’ advanced capital adequacy framework (advanced approaches rule).\(^2\) Since the guidance only applies to banking organizations that are required to adopt the advanced approaches or have opted to do so, it generally will not be applicable to community banking organizations. The guidance discusses certain common implementation issues and challenges, as well as key considerations for addressing these challenges in order to implement a satisfactory AMA framework.

The guidance focuses on the combination and use of the four required AMA data elements:

1) Internal operational loss event data
2) External operational loss event data
3) Scenario analysis
4) Business environment and internal control factors

Given some of the unique challenges related to the use of scenario analysis in the AMA, this data element is discussed in greater detail. Governance and validation are also discussed in light of their importance in ensuring the integrity of a bank’s AMA framework. While this guidance addresses certain aspects of the minimum risk-based capital requirements for operational risk, it is not intended to address the treatment of operational risk in a bank’s internal capital adequacy assessment process.

\(^1\) The other federal banking agencies include the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

\(^2\) See 12 CFR 208, Appendix F, and 12 CFR 225, Appendix G.
Reserve Banks are asked to distribute this letter to financial institutions supervised by the Federal Reserve in their districts that are required to implement or that have shown an interest in implementing the advanced approaches rule. Questions on the attached guidance should be addressed to Adrienne Haden, Assistant Director, Operational and Information Technology Risk, at (202) 452-2058, or Kenneth Fulton, Supervisory Financial Analyst, Risk Section, at (202) 452-2314. In addition, questions may be sent via the Board’s public website.³

Patrick M. Parkinson  
Director

Attachment:

*Interagency Guidance on the Advanced Measurement Approaches for Operational Risk*