**Annex V – Operational risk structured template instructions**

**INTERNAL MODEL: OPERATIONAL RISK**

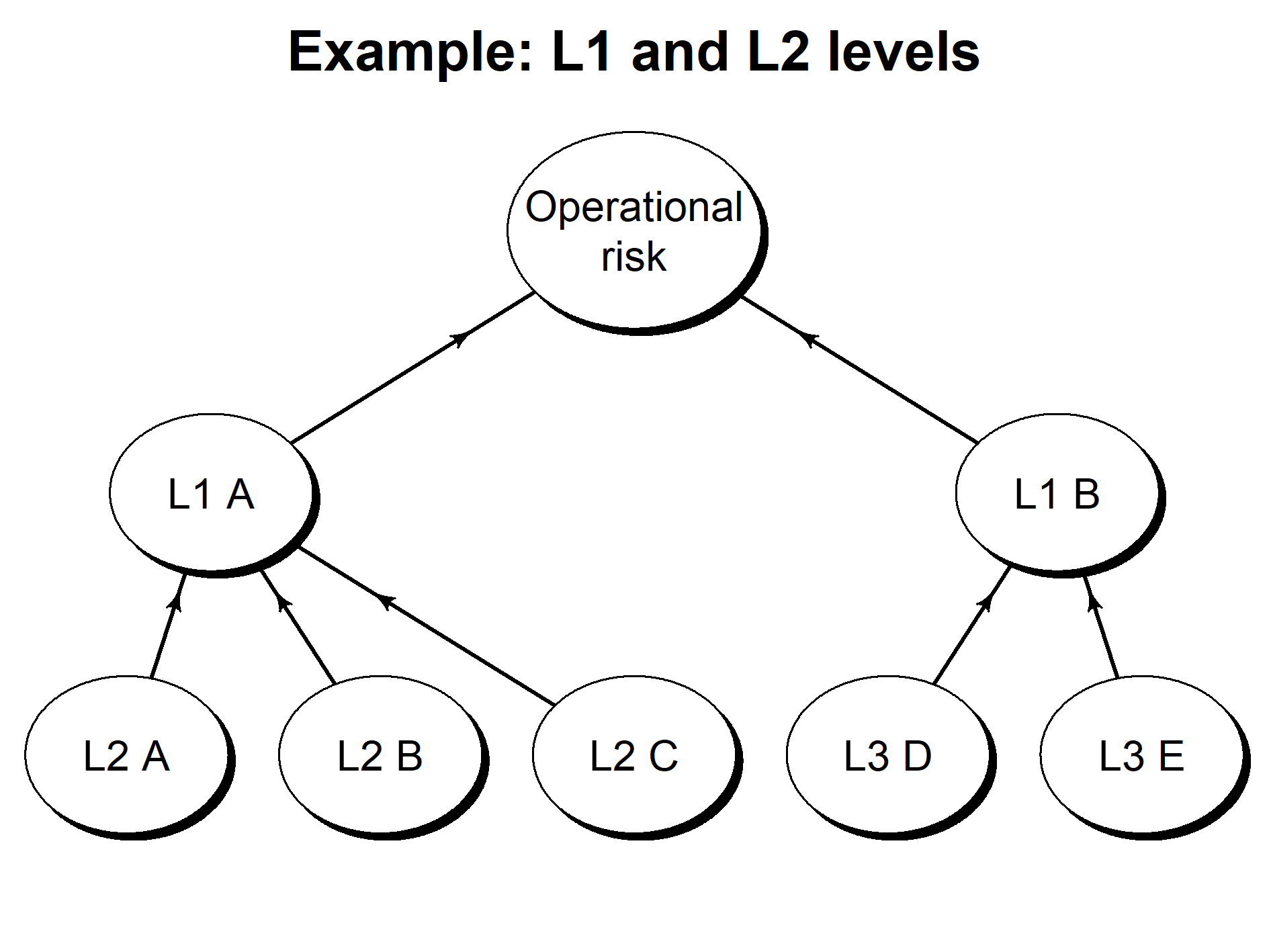
Each undertaking can use their own operational risks classification.

The OP\_MAP\_R\*\_C\* codes contain information on the scenarios defined by the undertaking. In case of multi-tier classifications, data on at least the two highest levels should be provided (define L1 as the highest level and L2 the immediately lower one, if present). All the information to be filled in are related to the one year forecasted loss probability distributions.

For an event type category defined as Level 1 (L1) occurrence, all numerical information (SCR, quantiles) should refer to the aggregation of the risk made at that level. Of course, each category identified in the Level 2 (L2) occurrence could come from an aggregation of lower levels loss distributions.

**An example of filling in the form**

Consider for example a model in which levels L1 and L2 (L1 is obtained by aggregating L2; total operational risk is obtained aggregating L1 levels). In this case

* the table must contain the list of L1 and L2 levels with information relating to the probability distributions of the estimated losses (losses corresponds to the right tail; gains to the left tail);
* the field “Probability distribution” must contain a text indicating the probability distribution used for losses (for example “Poisson-lognormal”) in case of levels obtained by quantification and the text “Obtained by aggregation of lower levels” for example for a level L1, whose probability distribution is obtained by aggregating L2 items.
* the numerical fields “Unique ID” and “Unique ID of parent level” are used to provide the definition of the aggregation hierarchy. For each of the level in the hierarchy define a numerical identifier (first field) and indicate the numerical identifier of the corresponding containing level (second field).

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| --- | --- | --- | --- |
| **Internal scenario classification**  **[free text]** | **Unique ID**  **[number]** | **Unique ID of parent level.**  **[number]** |  |
| L2 A | 201 | 101 | Note that the ID of the containing level is not valued for L1 levels, as the ultimate parent level is the operational risk itself. |
| L2 B | 202 | 101 |
| L2 C | 203 | 101 |
| L2 D | 204 | 102 |
| L2 E | 205 | 102 |
| L1 A | 101 |  |
| L1 B | 102 |  |

**Operational Risk**

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|  | **ITEM** | **INSTRUCTIONS** |
| OP\_QUE\_XXX\_R1\_C1 | Is Basel L1 classification used? | i.e. The seven high-level categories (L1) specified in [Basel II](https://www.bis.org/bcbs/qisoprisknote.pdf)  Select ‘Yes’ or ‘No’ from Drop-down list |
| OP\_QUE\_XXX\_R2\_C1 | Is Basel L1 and L2 classification used? | i.e. The Level 1 and 2 categories and their hierarchy (which L2 are included in each L1) specified in [Basel II](https://www.bis.org/bcbs/qisoprisknote.pdf) [[Annex 7](https://www.bis.org/publ/bcbs107.pdf)].  Select ‘Yes’ or ‘No’ from Drop-down list |
| OP\_MAP\_ XXX\_ R1\_ C1  To  OP\_MAP\_ XXX\_ RXX\_ C1 | Scenario name | This table should be completed by all undertakings [ie. even if the undertaking answers ‘No’ to ‘OP\_QUE\_XXX\_R1\_C1’ and/or ‘OP\_QUE\_XXX\_R2\_C1’] with the names of the internal scenarios used for Operational risk calculations by the internal model. |
| OP\_MAP\_XXX\_R1\_C2  To  OP\_MAP\_XXX\_RXX\_C2 | Unique ID | This is a unique ID of the internal scenario. This should be consistent across different reporting periods. This is a numeric field. |
| OP\_MAP\_XXX\_R1\_C3  To  OP\_MAP\_XXX\_RXX\_C3 | Unique ID of parent level. | This is a unique ID of the immediate parent internal scenario. This should be consistent across different reporting periods. This is a numeric field.  See example above. |
| OP\_MAP\_XXX\_R1\_C4  To  OP\_MAP\_XXX\_RXX\_C4 | Basel L1 classification mapping | For completion by undertakings which answer ‘Yes’ in OP\_QUE\_XXX\_R1\_C1 or the mapping to Basel L1 exists. Field should be empty if the scenario is higher than level 2 in the classification.  Elements in the drop down list:   1. **Internal fraud** 2. **External fraud** 3. **Employment practices and workspace safety** 4. **Damage to physical assets** 5. **Business disruption and system failures** 6. **Clients, products and business practices** 7. **Execution, delivery and process management** |
| OP\_MAP\_XXX\_R1\_C5  To  OP\_MAP\_XXX\_RXX\_C5 | Basel L2 classification mapping | For completion by undertakings which answer ‘Yes’ in OP\_QUE\_XXX\_R2\_C1 or the mapping to Basel L2 exists. Field should be empty if the scenario is higher than level 2 in the classification.  The occurrence “Other” can be used in case the risk could be classified in a Level 1 Basel category but there is not a Level 2 one.  Elements in the drop down list:   1. Internal fraud   **Unauthorized activity**  **Theft and fraud**  **Other**   1. External fraud   **Theft and fraud**  **Systems security**  **Other**   1. Employment practices and workspace safety   **Employee relations**  **Safe environment**  **Diversity and discrimination**  **Other**   1. Damage to physical assets   **Disasters and other events**  **Other**   1. Business disruption and system failures   **Systems**  **Other**   1. Clients, products and business practices   **Suitability, disclosure and fiduciary**  **Improper business or market practices**  **Product flaws**  **Selection, sponsorship and exposure**  **Advisory activities**  **Other**   1. Execution, delivery and process management   **Transaction capture, execution and maintenance**  **Monitoring and reporting**  **Customer intake and documentation**  **Customer / client account management**  **Trade counterparties**  **Vendors and suppliers**  **Other** |
| OP\_DES\_XXX\_R1\_C6  To  OP\_DES\_XXX\_RXX\_C6 | Probability Distribution | Elements in the drop-down list:   1. Poisson-lognormal 2. Lognormal 3. Poisson-Pareto 4. Empirical 5. Pareto 6. Other, please specify 7. Obtained by aggregation of lower levels   Item 1 to 6 to be used in case the probability distribution is quantified; item 7 in case the probability distribution is obtained by aggregation of lower level distributions. |
| OP\_SCR\_XXX\_R1\_C7  To  OP\_SCR\_XXX\_RXX\_C7 | Solvency Capital Requirement | Solvency capital requirement net of risk mitigating contracts per scenario. |
| OP\_PCT\_XXX\_R1\_C8  To  OP\_PCT\_XXX\_RXX\_C20 | Percentiles (see Annex XII for the required percentiles) | Percentiles of the loss distribution (losses corresponds to the right tail) net of risk mitigating contracts per scenario. |
| OP\_SCR\_XXX\_R1\_C1 | Total undiversified Level 2 | Sum of Level 2 capital requirements stand-alone contributions.  Any lower aggregation level should be already considered. |
| OP\_SCR\_XXX\_R2\_C1 | Sum of diversification inside Level 2 items | Difference between the sum of undiversified leaf risks SCR and OP\_SCR\_XXX\_R1\_C1.  For example, if the lower level is L3 (the ones quantified with probability distributions), enter the difference between the sum of Level 3 and the sum of Level 2 (stand alone). |
| OP\_SCR\_XXX\_R3\_C1 | Total undiversified Level 1 | Sum of Level 1 capital requirements stand-alone contributions (if applicable, net of risk mitigating contracts).  Any lower aggregation level should be already considered. |
| OP\_SCR\_XXX\_R4\_C1 | Operational risk – diversification between Level 1 items | Difference of OP\_SCR\_XXX\_R3\_C1 and OP\_SCR\_XXX\_R5\_C1 |
| OP\_SCR\_XXX\_R5\_C1 | Operational risk - diversified | Diversified operational risk capital requirement net of risk mitigating contracts. |