

SFC response to the EBA consultation on the draft Regulatory Technical Standards (RTS) on operational risk loss

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Introduction

The Swiss Finance Council (SFC) engages in dialogue around policy developments in finance at a European level. Our members include the largest global wealth and asset management firms and have substantial activities within the EU, contributing to a diverse market and choice for European retail investors.

General Remarks

We welcome the opportunity to be consulted on the draft Regulatory Technical Standards (RTS) on operational risk loss, as this topic is of particular importance for internationally active banks. It is our understanding that the European Banking Authority (EBA) intends to add 15 new Level-2 event types and further 19 risk attributes to the existing operational risk loss taxonomy which already consists of 7 Level-1 and 23 Level-2 event types. We do not question that there may be a need to update the existing taxonomy, initially developed by the Basel Committee on Banking Supervision (BCBS). However, the proposed RTS appear to be too ambitious and clearly lack international coordination. We would therefore prefer to see a corresponding revision tackled at BCBS level.

We regret to note that the consultation documents do not appear to provide a rationale for the various divergences from the BCBS standard, nor do they clarify the objectives and anticipated benefits of revising the risk taxonomy in this manner. At the same time, it is clear that the implementation of the RTS in their proposed version would result in substantial extra costs for the industry. We further believe that the amended taxonomy will not lead to less, but to more heterogeneity in the classification of operational risk losses as the new Level-2 event types feature different levels of granularity (e.g. internal fraud vs. damage to physical assets) and a wide range of characteristics (e.g., risk type, cause, and / or consequence) making it difficult to meaningfully allocate Level-2 event types to specific loss events.

The proposed introduction of the 19 attributes may also present various implementation challenges. For example, the definitions and delimitations of the five proposed ESG attributes (e.g., greenwashing, physical risks and transition risks) remain unclear. Other attributes seem to be overlapping (e.g., model risk and ICT risk). Finally, certain attributes are volatile in nature (“large loss event” and “ten largest loss events”), which will entail a high level of effort to implement, monitor and adjust, if necessary, the allocation of attributes to specific loss events.

Overall, the proposed adjusted operational risk loss taxonomy would significantly increase the complexity for all banks operating in the EU. Globally active banks would even have to maintain two taxonomies at the same time, the adjusted EU taxonomy and the standard BCBS taxonomy. Furthermore, with the RTS exceeding BCBS standards, EU based legal entities would also face challenges concerning comparability of data between group entities in general both inside and outside of the EU. Such a revision is all the less expedient as the risk taxonomy is not only used to identify and classify losses for regulatory purposes but also to internally manage operational risk in general.

In light of these considerations, we suggest that the EBA revisit its draft RTS on operational risk loss. The BCBS standards could serve as a valuable reference framework, with any extensions beyond these standards being introduced only where necessary and where a clear added value for both supervisors

and banks can be demonstrated. Finally, we would like to stress that the implementation timeline is very tight. The final RTS are expected by the end of 2024 with effect from 2025, providing limited time to implement all required changes related to mapping the taxonomy in the systems, adjust reporting processes and internal education on new mapping.

As regards EBA's specific consultation questionnaire, we refer to the submission of the European Banking Federation (EBF).